The Great-West Life Assurance Company

2008 ANNUAL REPORT

THE Great-West Life ASSURANCE COMPANY

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This report contains some forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future action by the Company, including statements made by the Company with respect to the expected benefits of acquisitions or divestitures, are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the financial services industry generally, including the insurance and mutual fund industries. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to, important factors such as sales levels, premium income, fee income, expense levels, mortality experience, morbidity experience, policy lapse rates and taxes, as well as general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, catastrophic events, and the Company's ability to complete strategic transactions and integrate acquisitions. The reader is cautioned that the foregoing list of important factors is not exhaustive, and there may be other factors, including factors set out herein under "Risk Management and Control Practices", and any listed in other filings with securities regulators, which are available for review at www.sedar.com. The reader is also cautioned to consider these and other factors carefully and to not place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company has no intention to update any forward-looking statements whether as a result of new information, future events or otherwise.

CAUTIONARY NOTE REGARDING NON-GAAP FINANCIAL MEASURES

This report contains some non-GAAP financial measures. Terms by which non-GAAP financial measures are identified include, but are not limited to, "earnings before restructuring charges", "adjusted net income", "net income – adjusted", "earnings before adjustments", "constant currency basis", "premiums and deposits", "sales", and other similar expressions. Non-GAAP financial measures are used to provide management and investors with additional measures of performance. However, non-GAAP financial measures do not have standard meanings prescribed by GAAP and are not directly comparable to similar measures used by other companies. Refer to the appropriate reconciliations of these non-GAAP financial measures to measures prescribed by GAAP.

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The consolidated financial statements of the Company, which are the basis for data presented in this report, have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars unless otherwise indicated.

CORPORATE PROFILE

Great-West Life is a leading Canadian insurer, with interests in the life and health insurance, investment, retirement savings and reinsurance businesses, primarily in Canada and Europe.

In Canada, Great-West Life and its subsidiaries, London Life and Canada Life, offer a broad portfolio of financial and benefit plan solutions and serve the financial security needs of more than 12 million people.

Great-West Life's products include a wide range of investment, retirement savings and income plans, as well as life, disability, critical illness and health insurance for individuals and families. These products and services are distributed through a diverse network: financial security advisors and brokers associated with Great-West Life; financial security advisors associated with London Life's Freedom 55 Financial™ division and the Wealth & Estate Planning Group; and advisors, managing general agencies and national accounts associated with Canada Life.

For large and small businesses and organizations, Great-West Life offers a variety of benefit plan solutions featuring options such as group life, healthcare, dentalcare, wellness and group disability, critical illness and international benefits plans, plus convenient online services. We also offer group retirement and savings plans that are tailored to the unique needs of businesses and organizations. We distribute these products and services through financial security advisors associated with our companies, as well as independent advisors, brokers and consultants.

Great-West Life has operations in the United Kingdom, Isle of Man, Ireland and Germany through Canada Life. The Company participates in international reinsurance markets through Canada Life Reinsurance and London Reinsurance Group, providing life and property and casualty reinsurance in the United States and in international markets.

Great-West Life has more than $162 billion* in assets under administration and is a subsidiary of Great-West Lifeco Inc., a member of the Power Financial Corporation group of companies.

For more information on Great-West Life, including the Company's current ratings, visit www.greatwestlife.com.

** as of December 31, 2008*

Table of Contents

DIRECTORS' REPORT

In 2008 Great-West Life and its subsidiaries in Canada and Europe delivered excellent results in a very difficult economic environment. Our conservative investment policies, strong risk-averse culture and disciplined expense management served us well during this challenging period.

Measures of Great-West Life's performance in 2008 include:

- Premiums and deposits at $40.8 billion were up 19% over 2007. Fee income was down 1%.
- In Canada, mutual fund net deposits to the *Quadrus Group of Funds* remained strong at 15.2% of opening assets in 2008 despite difficult markets. This outpaced the mutual fund industry, which had zero net sales.
- Net income before adjustments at $1.9 billion was up 9% over 2007.
- General account assets were $100.5 billion, an increase of 9% from 2007.
- Segregated funds net assets decreased 16% from 2007, reflecting lower market values.

Net income attributable to participating policyholder accounts of Great-West Life and its subsidiaries, London Life and Canada Life, before policyholder dividends was $1,086 million in 2008 and policyholder dividends were $1,027 million, up 7% over 2007. Net income in the participating accounts after policyholder dividends was $59 million.

Great-West Life's financial strength is reflected in its Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio, which remained strong at December 31, 2008. Our MCCSR ratio of 210% remains at the upper end of our target operating range.

Ratings are another important indicator of our financial strength. In 2008, all five agencies which rate Great-West Life reaffirmed strong ratings for the company and its subsidiaries.

Canada

In Canada, Great-West Life, together with London Life and Canada Life, maintained strong market positions in our individual and group businesses, despite troubled financial markets. Expense management was a key focus in all parts of the business.

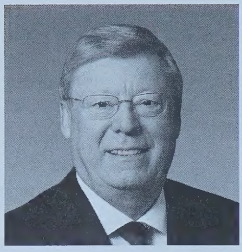
Our individual life insurance and living benefits businesses grew faster than the market; our group insurance and group retirement services businesses recorded strong growth; and our individual segregated fund and mutual fund businesses maintained positive net cash flows amidst the significant market turmoil.

Individual businesses

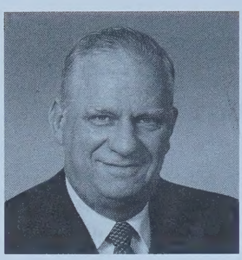
The Canadian operations continued to focus on distribution support and development in 2008, both in the exclusive and independent distribution channels.

Our multi-channel distribution strategy supports the very strong persistency of our business, provides a strategic advantage for us and contributes to our strong market share across our multiple lines of business.

Together, Great-West Life, London Life and Canada Life remain Canada's number one provider of individual life insurance.



Raymond L. McFeetors



D. Allen Loney

We work to deliver solid dividend performance for our participating policyholders. We recently announced the 2008 dividend scale will continue to apply unchanged in 2009 for all open Canadian participating life insurance accounts of Great-West Life, London Life and Canada Life.

Great-West Life, London Life and Canada Life provide a broad choice of investment, income and savings products. These include segregated funds; and also mutual funds which are offered through Quadrus Investment Services Ltd., a mutual fund dealer affiliated with Great-West Life.

Great-West Life, together with Canada Life, remains a leading provider of individual disability and critical illness insurance in Canada. With over 65 years experience in the individual disability insurance market in Canada, Great-West Life continues to help Canadians meet their financial security planning needs.

Group businesses

Great-West Life is a leading provider of group insurance solutions for organizations of all sizes in Canada. In recent years, technology has become a key enabler in the Group Insurance Division's competitive strategies of service leadership, innovation in products and services, and process excellence.

In 2008, we laid the technology groundwork for two service initiatives – *eSetUp* and *eClaims*. *eSetUp* will automate the plan setup process for small and mid-size plan sponsors. *eClaims* will expand the online claims submission options currently available, enhancing service and convenience for plan members and making more claims paper-free.

Other important 2008 Group insurance initiatives included:

- an enhanced fraud detection and prevention service to better help employers manage their benefit plans,
- a *Peak Performance* process excellence initiative which significantly reduced operating expenses and improved service in our health and dental claims organization, and
- expansion of *The Great-West Life Centre for Mental Health in the Workplace*, including commissioning a guide to help employers assess and address workplace factors affecting mental health.

Group capital accumulation plans are a core business for Great-West Life. In 2008, we redesigned our group retirement services secure transaction website, *GRS Access*, and introduced an innovative member investment selection service, giving plan members access to personalized investment advice.

In October, we entered into an agreement with Fidelity Investments Canada ULC in which Fidelity is transitioning its Canadian group retirement and savings plan record-keeping business to us, representing $2.2 billion in assets under administration as at October 22, 2008.

Europe

In Europe, Great-West Life, through its subsidiary Canada Life, has operations in the United Kingdom, Isle of Man, Ireland and Germany.

In 2008, challenging global credit, equity and foreign exchange markets and a loss of consumer confidence in the markets led to lower sales in the European operations. We maintain a continued focus on credit and expense controls and despite lower sales, our European operations are in a strong position to take advantage of opportunities.

In Germany, Canada Life launched a new suite of products to respond to the changing regulatory environment.

In February, Canada Life subsidiary Canada Life International Re Limited assumed by way of indemnity reinsurance, a large block of U.K. payout annuities. We continue to seek opportunities to expand our position in core European markets.

Great-West Life participates in international reinsurance markets through Canada Life Reinsurance and London Reinsurance Group, providing life and property and casualty reinsurance in the United States and in international markets. In 2008, we continued to leverage our financial strength, strong risk-averse culture and excellent client relationships to achieve strong business results. Our US ordinary life reinsurance business now reinsures 4.8 million people for US$180 billion of insurance.

Giving back to our communities

As an organization and individuals, we are proud to contribute to the development of stronger communities. The financial and voluntary support we provide to hundreds of charitable, non-profit and community-based organizations is aimed at meeting a high standard of corporate citizenship.

Management appointments

In May 2008, following a distinguished career as President and Chief Executive Officer, Raymond L. McFeetors was appointed Chairman of the Board, succeeding Robert Gratton. D. Allen Loney, previously the Company's Chief Actuary, was appointed as President and CEO of Great-West Life, in succession to Mr. McFeetors.

Additionally, new senior management appointments were announced at the annual meeting, from amongst longstanding members of the current executive management team: William L. Acton as President and CEO of Canada Life Capital Corporation (CLCC), the holding company for the European operations; and Paul Mahon as President and Chief Operating Officer, Canada, following the retirement of Denis J. Devos after 35 years of distinguished service.

Board of Directors

At Great-West Life's 2008 Annual Meeting of Shareholders and Policyholders, tribute was paid to Robert Gratton for his outstanding contribution to the growth and evolution of the organization during his six-year tenure as Chairman of the Board.

Also in 2008, Robert Gratton retired from the Board after serving as a Director since November 1989. Mr. Gratton made an outstanding contribution to Great-West Life and its subsidiaries through his vision, drive and determination to expand the Company through acquisitions; his skill in structuring the financing of these transactions, his cultivation of a multi-country governance structure and the wisdom he applied to business issues. The Board of Directors would like to express their sincere appreciation and gratitude to Mr. Gratton for his guidance and leadership throughout the years.

At the 2008 Annual Meeting it was also announced that Gail S. Asper, Gérard Veilleux and Peter Kruyt were retiring from the Board of Directors. Ms. Asper and Mr. Veilleux had served as Directors since 1998, and Mr. Kruyt had served as a Director since 2004. Through their participation on the Board and various Board Committees, each of these Directors made a valuable contribution to the affairs of the Corporation, and we thank them sincerely for their years of service.

At the annual meeting three new individuals were elected to the Board: Marc A. Bibeau, President of Beauward Shopping Centers Ltd.; Chaviva M. Hošek, President and Chief Executive Officer of The Canadian Institute for Advanced Research; and Philip K. Ryan, Executive Vice-President and Chief Financial Officer of Power Financial Corporation and Power Corporation of Canada.

William (Bill) T. McCallum, Vice-Chairman (and former President and Chief Executive Officer) of Great-West Life & Annuity Insurance Company and former Co-President and Chief Executive Officer of Lifeco, retired in 2008 after serving as a Director of Great-West for 15 years. The Board of Directors would like to sincerely thank Mr. McCallum for his many years of dedicated service. Allen Loney was appointed to Great-West's Board of Directors to fill the resulting vacancy.

On behalf of the Board of Directors, it is our pleasure to recognize the professionalism and continuing dedication of the people across our companies who serve our clients and distribution associates worldwide. We also thank our clients, distribution associates and shareholders for their continued support.

Raymond L. McFeetors
Chairman of the Board

D. Allen Loney
President and
Chief Executive Officer

FINANCIAL HIGHLIGHTS

(in $ millions, except per share amounts)

	2008	2007	% Change
For the years ended December 31			
Premiums and deposits:			
Life insurance, guaranteed annuities and insured health products	$ 27,425	$ 19,221	43%
Self-funded premium equivalents (ASO contracts)	2,410	2,233	8%
Segregated funds deposits:			
Individual products	6,932	8,544	-19%
Group products	3,321	3,311	–
Proprietary mutual funds deposits	708	835	-15%
Total premiums and deposits	40,796	34,144	19%
Fee and other income	1,685	1,705	-1%
Paid or credited to policyholders	24,461	18,982	29%
Summary of net income attributable to:			
Participating account [(1)]	59	129	-54%
Preferred shareholders	9	11	-18%
Common shareholder – adjusted	1,894	1,733	9%
Adjustments after-tax [(1)]	–	97	–
Net income common shareholder [(2)]	1,894	1,636	16%
Per common share			
Basic earnings – adjusted	$ 906.69	$ 830.07	9%
Adjustments after-tax [(1)]	–	46.59	–
Basic earnings	906.69	783.48	16%
Dividends paid	465.83	412.26	13%
Book value	5,350.00	4,889.00	9%
At December 31			
Total assets	$ 100,462	$ 91,869	9%
Segregated funds net assets	59,924	71,614	-16%
Proprietary mutual funds net assets	2,172	2,432	-11%
Total assets under administration	$ 162,558	$ 165,915	-2%
Participating account surplus	$ 1,997	$ 1,917	4%
Shareholder equity	11,332	10,370	9%
Total participating account surplus and shareholder equity	$ 13,329	$ 12,287	8%

(1) During the year ended December 31, 2007, net income attributable to the common shareholder was reduced by $97 after-tax, and net income attributable to the participating account was reduced by $6 after-tax as a result of a provision for certain Canadian retirement plans. Net income and basic earnings per common share are presented before adjustments, as a non-GAAP financial measure of earnings performance.

(2) Net income attributable to the common shareholder for the year ended December 31, 2008 includes asset impairment charges of $76 after-tax.

FINANCIAL REPORTING RESPONSIBILITY

The consolidated financial statements are the responsibility of management and are prepared in accordance with Canadian generally accepted accounting principles for life insurance enterprises, including the accounting requirements of the Office of the Superintendent of Financial Institutions Canada. The financial information contained elsewhere in the annual report is consistent with that in the consolidated financial statements. The consolidated financial statements necessarily include amounts that are based on management's best estimates. These estimates are based on careful judgments and have been properly reflected in the consolidated financial statements. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its segregated funds and the results of its operations and its cash flows and the changes in assets of its segregated funds in accordance with Canadian generally accepted accounting principles, including the requirements of the Superintendent of Financial Institutions Canada.

In carrying out its responsibilities, management maintains appropriate internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles, including the requirements of the Superintendent of Financial Institutions Canada.

The consolidated financial statements were approved by the Board of Directors which has oversight responsibilities with respect to financial reporting. The Board of Directors carries out this responsibility principally through the Audit Committee, which is comprised of non-management directors. The Audit Committee is charged with, among other things, the responsibility to:

- Review the interim and annual consolidated financial statements and report thereon to the Board of Directors.
- Review internal control procedures.
- Review the independence of the external auditors and the terms of their engagement and recommend the appointment and compensation of the external auditors to the Board of Directors.
- Review other audit, accounting and financial reporting matters as required.

In carrying out the above responsibilities, this Committee meets regularly with management, and with both the Company's external and internal auditors to review their respective audit plans and to review their audit findings. The Committee is readily accessible to external and internal auditors and to the Appointed Actuary.

The Board of Directors of the Company, pursuant to the Insurance Companies Act (Canada), appoints an Actuary who is a Fellow of the Canadian Institute of Actuaries. The Actuary:

- Ensures that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations and directives.
- Provides an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations. Examination of supporting data for accuracy and completeness and analysis of assets for their ability to support the policy liabilities are important elements of the work required to form this opinion.
- Annually analyzes the financial condition of the Company and prepares a report for the Board of Directors. The analysis covers a five year period, and tests the projected capital adequacy of the Company, under adverse economic and business conditions.

Deloitte & Touche LLP Chartered Accountants, as the Company's external auditors, have audited the consolidated financial statements. The Auditors' Report to the Policyholders and Shareholders is presented following the consolidated financial statements. Their opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary in order to obtain reasonable assurance that the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its segregated funds and the results of its operations and its cash flows and the changes in assets of its segregated funds in accordance with generally accepted accounting principles.

D. Allen Loney President and Chief Executive Officer	**William W. Lovatt** Executive Vice-President and Chief Financial Officer

February 12, 2009

SUMMARIES OF CONSOLIDATED OPERATIONS

(in $ millions except per share amounts)

For the years ended December 31	2008	2007
Income		
Premium income	$ 27,425	$ 19,221
Net investment income (note 3)		
Regular net investment income	4,802	4,321
Changes in fair value on held for trading assets	(4,056)	(1,015)
Total net investment income	746	3,306
Fee and other income	1,685	1,705
	29,856	24,232
Benefits and expenses		
Policyholder benefits	14,471	14,180
Policyholder dividends and experience refunds	1,175	921
Change in actuarial liabilities	8,815	3,881
Total paid or credited to policyholders	24,461	18,982
Commissions	1,203	1,222
Operating expenses	1,397	1,502
Premium taxes	195	204
Financing charges (note 9)	70	71
Amortization of finite life intangible assets	18	18
Net income before income taxes	2,512	2,233
Income taxes – current (note 21)	335	582
– future (note 21)	208	(132)
Net income before non-controlling interests	1,969	1,783
Non-controlling interests	7	7
Net income	1,962	1,776
Net income – participating account (note 14)	59	129
Net income – shareholders	1,903	1,647
Preferred share dividends	9	11
Net income – common shareholder	$ 1,894	$ 1,636
Earnings per common share	$ 906.69	$ 783.48

CONSOLIDATED BALANCE SHEETS

(in $ millions)

December 31	2008	2007
Assets		
Bonds (note 3)	$ 50,113	$ 51,311
Mortgage loans (note 3)	15,730	14,649
Stocks (note 3)	4,705	5,913
Real estate (note 3)	3,023	2,419
Loans to policyholders	2,768	2,587
Cash and cash equivalents	2,561	3,203
Funds held by ceding insurers	11,447	1,518
Goodwill (note 6)	5,270	5,269
Intangible assets (note 6)	1,419	1,419
Other assets (note 7)	3,426	3,581
General funds assets	$ 100,462	$ 91,869
Segregated funds net assets	$ 59,924	$ 71,614
Liabilities		
Policy liabilities		
Actuarial liabilities (note 8)	$ 77,572	$ 70,850
Provision for claims	1,339	1,231
Provision for policyholder dividends	586	560
Provision for experience rating refunds	186	192
Policyholder funds	2,059	1,985
	81,742	74,818
Debentures and other debt instruments (note 10)	307	509
Funds held under reinsurance contracts	651	494
Other liabilities (note 11)	3,389	2,593
Repurchase agreements	87	207
Deferred net realized gains	149	170
	86,325	78,791
Capital trust securities and debentures (note 13)	658	639
Non-controlling interests (note 12)		
Perpetual preferred shares issued by subsidiary	150	152
Participating account surplus and shareholder equity		
Participating account surplus (note 14)		
Accumulated surplus	1,992	1,938
Accumulated other comprehensive income (loss)	5	(21)
Share capital (note 15)		
Preferred shares	158	158
Common shares	6,116	6,116
Shareholder surplus		
Accumulated surplus	5,399	4,473
Accumulated other comprehensive income (loss)	(546)	(576)
Contributed surplus	205	199
	13,329	12,287
General funds liabilities, participating account surplus and shareholder equity	$ 100,462	$ 91,869
Segregated funds	$ 59,924	$ 71,614

Approved by the Board:

Director

Director

CONSOLIDATED STATEMENTS OF SURPLUS

(in $ millions)

For the years ended December 31	2008	2007
Participating account surplus		
Accumulated surplus		
Balance, beginning of year	$ 1,938	$ 1,696
Change in accounting policy (note 1(a))	–	113
Net income	59	129
Repatriation of Canada Life seed capital to shareholder account (note 14)	(5)	–
Balance, end of year	$ 1,992	$ 1,938
Accumulated other comprehensive income (loss), net of income taxes (note 19)		
Balance, beginning of year	$ (21)	$ (16)
Change in accounting policy (note 1(a))	–	13
Other comprehensive income (loss)	26	(18)
Balance, end of year	$ 5	$ (21)
Shareholder surplus		
Accumulated surplus		
Balance, beginning of year	$ 4,473	$ 3,939
Change in accounting policy (note 1(a))	–	(241)
Net income	1,903	1,647
Repatriation of Canada Life seed capital from participating policyholder account (note 14)	5	–
Dividends to shareholders		
Perpetual preferred shareholders	(9)	(11)
Common shareholder	(973)	(861)
Balance, end of year	$ 5,399	$ 4,473
Accumulated other comprehensive income (loss), net of income taxes (note 19)		
Balance, beginning of year	$ (576)	$ (167)
Change in accounting policy (note 1(a))	–	219
Other comprehensive income (loss)	30	(628)
Balance, end of year	$ (546)	$ (576)
Contributed surplus		
Balance, beginning of year	$ 199	$ 193
Stock option expense (note 17)	6	6
Balance, end of year	$ 205	$ 199

SUMMARIES OF CONSOLIDATED COMPREHENSIVE INCOME

(in $ millions)

For the years ended December 31	2008	2007
Net income	$ 1,962	$ 1,776
Other comprehensive income (loss), net of income taxes		
Unrealized foreign exchange gains (losses) on translation of foreign operations	137	(560)
Unrealized gains (losses) on available-for-sale assets	(47)	(55)
Realized gains (losses) on available-for-sale assets	(34)	(33)
Unrealized gains (losses) on cash flow hedges	–	2
	56	(646)
Comprehensive income	$ 2,018	$ 1,130

Income tax (expense) benefit included in other comprehensive income

For the years ended December 31	2008	2007
Unrealized foreign exchange gains (losses) on translation of foreign operations	$ (1)	$ –
Unrealized gains (losses) on available-for-sale assets	19	16
Realized (gains) losses on available-for-sale assets	12	14
Unrealized gains (losses) on cash flow hedges	–	–
	$ 30	$ 30

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in $ millions)

For the years ended December 31	2008	2007
Operations		
Net income	$ 1,962	$ 1,776
Adjustments:		
Change in policy liabilities	(3,106)	79
Change in funds held by ceding insurers	1,299	665
Change in funds held under reinsurance contracts	95	155
Change in current income taxes payable	(285)	(103)
Future income tax expense	208	(132)
Change in fair value of financial instruments	4,056	1,015
Other	(392)	(37)
Cash flows from operations	3,837	3,418
Financing activities		
Redemption of preferred shares	–	(52)
Repayment of debentures and other debt instruments	(201)	(2)
Dividends paid	(982)	(872)
	(1,183)	(926)
Investment activities		
Bond sales and maturities	12,585	19,227
Mortgage loan repayments	1,834	1,659
Stock sales	2,109	2,391
Real estate sales	84	168
Change in loans to policyholders	(99)	(65)
Acquisition and disposal of businesses (note 2)	–	11
Acquisition of intangible assets (note 6)	(20)	–
Investment in bonds	(13,342)	(18,034)
Investment in mortgage loans	(3,047)	(2,987)
Investment in stocks	(2,606)	(3,529)
Investment in real estate	(871)	(737)
	(3,373)	(1,896)
Effect of changes in exchange rates on cash and cash equivalents	77	(338)
Increase (decrease) in cash and cash equivalents	(642)	258
Cash and cash equivalents, beginning of year	3,203	2,945
Cash and cash equivalents, end of year	$ 2,561	$ 3,203
Supplementary cash flow information		
Income taxes paid	$ 688	$ 729
Interest paid	$ 75	$ 78

SEGREGATED FUNDS – CONSOLIDATED NET ASSETS

(in $ millions)

December 31	2008	2007
Bonds	$ 7,584	$ 8,163
Mortgage loans	1,952	1,949
Stocks	38,658	50,447
Real estate	6,744	6,821
Cash and cash equivalents	5,718	5,048
Income due and accrued	270	220
Other assets (liabilities)	(1,002)	(1,034)
	$ 59,924	$ 71,614

SEGREGATED FUNDS – CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(in $ millions)

For the years ended December 31	2008	2007
Segregated funds net assets, beginning of year	$ 71,614	$ 71,288
Additions (deductions):		
Policyholder deposits	10,253	11,855
Net investment income	978	2,677
Net realized capital gains (losses) on investments	(2,866)	712
Net unrealized capital gains (losses) on investments	(11,198)	(1,602)
Unrealized gains (losses) due to change in foreign exchange rates	(422)	(3,602)
Policyholder withdrawals	(8,645)	(9,887)
Net transfer from General Fund	210	173
	(11,690)	326
Segregated funds net assets, end of year	$ 59,924	$ 71,614

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in $ millions except per share amounts)

1. Basis of Presentation and Summary of Accounting Policies

The consolidated financial statements of The Great-West Life Assurance Company (Great-West Life or the Company) include the accounts of its subsidiary companies and have been prepared in accordance with Subsection 331(4) of the Insurance Companies Act, which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada (OSFI), the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements of OSFI. The principal subsidiaries at December 31, 2008 are:

London Insurance Group Inc. (LIG)
Canada Life Financial Corporation (CLFC)
GWL Investment Management Ltd. (GWLIM)
GWL Realty Advisors Inc.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. The valuation of actuarial liabilities, certain financial assets and liabilities, goodwill and indefinite life intangible assets, income taxes and pension plans and other post-retirement benefits are the most significant components of the Company's financial statements subject to management estimates.

The year to date results of the Company reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions. Financial instrument carrying values currently reflect the illiquidity of the markets and the liquidity premiums embedded in the market pricing methods the Company relies upon.

The estimation of actuarial liabilities relies upon investment credit ratings. The Company's practice is to use third party independent credit ratings where available. Credit rating changes may lag developments in the current environment. Subsequent credit rating adjustments will impact actuarial liabilities.

In addition to the Company's direct investments in certain financial institutions, the Company has contractual business relationships with these financial institutions. Given the current uncertainty associated with these entities, normal business conditions do not prevail and the Company's contractual business relationships may be impacted.

Given the uncertainty surrounding the continued volatility in these markets, and the general lack of liquidity in financial markets, the actual financial results could differ from those estimates.

The significant accounting policies are as follows:

(a) Changes in Accounting Policy

Capital Disclosures

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures*. The section establishes standards for disclosing information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The new requirements are for disclosure only and did not impact the financial results of the Company.

Financial Instrument Disclosure and Presentation

Effective January 1, 2008, the Company adopted the CICA Handbook Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. These sections replace existing Section 3861, *Financial Instruments – Disclosure and Presentation*. Presentation standards are carried forward unchanged. Disclosure standards are enhanced and expanded to complement the changes in accounting policy adopted in accordance with Section 3855, *Financial Instruments – Recognition and Measurement* during 2007.

Financial Instruments Recognition and Measurement

On January 1, 2007, the Company adopted the following new accounting standards issued by CICA: Handbook Section 1530, *Comprehensive Income*, Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3865, *Hedges*; and Section 4211, *Life Insurance Enterprises*. The Company also adopted The Office of the Superintendent of Financial Institutions Canada Guideline D-10, *Accounting for Financial Instruments Designated as "Held for Trading" (Fair Value Option)* (OSFI D-10), which provides additional guidance to certain federally regulated financial institutions, including life insurance companies.

Under the new guidance, all financial assets, must be classified as available for sale, held for trading, held to maturity, or loans and receivables. All financial liabilities, including derivatives, must be classified as held for trading or other. Derivatives are classified as held for trading or other if it is a designated and effective hedging instrument. All financial instruments classified as available for sale or held for trading are recognized at fair value on the Consolidated Balance Sheets while financial instruments classified as loans and receivables or other will continue to be measured at amortized cost using the effective interest rate method. The standards allow the Company to designate certain financial instruments, on initial recognition, as held for trading. This option has been limited by the requirements of OSFI D-10.

Changes in the fair value of financial instruments classified as held for trading are reported in net income. Unrealized gains or losses on financial instruments classified as available for sale are reported in other comprehensive income (OCI) and will be reported in net income when they are realized by the Company.

1. Basis of Presentation and Summary of Accounting Policies (cont'd)

The Company is required to present a new statement of comprehensive income and its components, as well as the components of accumulated other comprehensive income (AOCI), in its financial statements. Comprehensive income includes both net income and OCI. Major components of OCI include changes in unrealized gains and losses on financial assets classified as available for sale, changes in fair value on certain derivative instruments and currency translation gains and losses on self-sustaining foreign subsidiary operations.

Unless otherwise stated below, financial assets and liabilities will remain on the Consolidated Balance Sheets at amortized cost.

Certain investments, primarily investments normally actively traded in a public market are measured at their fair value. Investments backing actuarial liabilities, and investments backing participating account surplus in The Canada Life Assurance Company (Canada Life), are designated as held for trading using the fair value option. Changes in the fair value of these investments flow through net income. This impact is largely offset by corresponding changes in the actuarial liabilities which also flow through net income. Investments backing shareholder capital and surplus, with the exception of the investments backing participating account surplus in Canada Life, are classified as available for sale. Unrealized gains and losses on these investments flow through OCI until they are realized. Certain investment portfolios are classified as held for trading as a reflection of their underlying nature. Changes in the fair value of these investments flow through net income. There has been no change to the Company's method of accounting for real estate or loans.

Derivative instruments, previously off-balance sheet, are recognized at their fair value on the Consolidated Balance Sheets. Changes in the fair value of derivatives are recognized in net income except for derivatives designated as effective cash flow hedges.

Derivatives embedded in financial instruments, or other contracts, which are not closely related to the host financial instrument, or contract, must be bifurcated and recognized independently. The Company chose a transition date of January 1, 2003 for embedded derivatives and therefore will only be required to account separately for those embedded derivatives in hybrid instruments issued, acquired or substantially modified after that date. The change in accounting policy related to embedded derivatives did not have a significant impact on the financial statements of the Company.

Three types of hedging relationships are permitted under the new guidance: fair value hedges, cash flow hedges, and hedges of net investments in self-sustaining foreign operations. Changes in fair value hedges are recognized in net income. The effective portion of cash flow hedges and hedges of net investments in self-sustaining foreign operations is recorded in OCI until the variability in cash flows being hedged is recognized in net income.

Trade-date accounting will be used to account for all purchase or sale of investments traded on a public market and derivative instruments. Settlement-date accounting will be used to account for all purchase or sale of investments not traded on a public market.

Transaction costs for financial assets and liabilities classified or designated as held for trading will be recognized immediately in net income. Transaction costs for financial assets classified as available for sale or loans and receivables will be added to the value of the instrument at acquisition and be taken into net income using the effective interest rate method. Transaction costs for financial liabilities classified as other than held for trading will be recognized immediately in net income.

On January 1, 2007, transition adjustments were made to certain existing financial instruments to adjust their carrying value to market, to recognize derivative financial instruments on the balance sheet, to eliminate the recognition of deferred realized gains with corresponding adjustments to actuarial liabilities and opening accumulated surplus. The transition adjustments resulted in an increase in total assets of $1,577, an increase in policy and other liabilities of $1,473, an increase in participating accumulated surplus of $113, an increase in the participating account AOCI of $13, a decrease in shareholder accumulated surplus of $241 and an increase in shareholder AOCI of $219.

(b) Portfolio Investments

Portfolio investments are classified as held for trading, available for sale, held to maturity, loans and receivables or as non-financial instruments based on management's intention or characteristics of the investment. The Company currently has not classified any investments as held to maturity.

Investments in bonds and stocks normally actively traded on a public market are designated or classified as either held for trading or available for sale on a trade date basis, based on management's intention. Held for trading investments are recognized at fair value on the Consolidated Balance Sheets with realized and unrealized gains and losses reported in the Summaries of Consolidated Operations. Available for sale investments are recognized at fair value on the Consolidated Balance Sheets with unrealized gains and losses recorded in OCI. Realized gains and losses are reclassified from OCI and recorded in the Summaries of Consolidated Operations when the available for sale investment is sold. Interest income earned on both held for trading and available for sale bonds is recorded as investment income earned in the Summaries of Consolidated Operations.

Investments in equity instruments where a market value cannot be measured reliably are classified as available for sale and carried at cost. Investments in stocks for which the company exerts significant influence over but does not control are accounted for using the equity method of accounting (see note 3).

Investments in mortgages and bonds not normally actively traded on a public market are classified as loans and receivables and are carried at amortized cost net of any allowance for credit losses. Interest income earned and realized gains and losses on the sale of investments classified as loans and receivables are recorded in the Summaries of Consolidated Operations and included in investment income earned.

Investments in real estate are carried at cost net of write-downs and allowances for loss, plus a moving average market value adjustment of $215 ($213 in 2007) on the Consolidated Balance Sheets. The carrying value is adjusted towards market value at a rate of 3% per quarter. Net realized gains and losses are included in Deferred Net Realized Gains on the Consolidated Balance Sheets and are deferred and amortized to income at a rate of 3% per quarter on a declining-balance basis.

Fair Value Measurement

Financial instrument carrying values necessarily reflect the prevailing market liquidity and the liquidity premiums embedded in the market pricing methods the Company relies upon.

Fair values for bonds classified as held for trading or available for sale are determined using quoted market prices. Where prices are not quoted in a normally active market, fair values are determined by valuation models primarily using observable market data inputs. Market values for bonds and mortgages classified as loans and receivables are determined by discounting expected future cash flows using current market rates.

Fair values for public stocks are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for stocks for which there is no active market are determined by discounting expected future cash flows. Where market value cannot be measured reliably, fair value is estimated to be equal to cost. Market values for real estate are determined using independent appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals.

Impairment

Investments are reviewed regularly on an individual basis to determine impairment status. The Company considers various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults and delinquency in payments of interest or principal. Investments are deemed to have an other than temporary impairment when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due or the Company does not have the intent to hold the investment until the value has recovered. The market value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors including the remaining term to maturity and liquidity of the asset. However market price must be taken into consideration when evaluating other than temporary impairment.

For impaired mortgages and bonds classified as loans and receivables, provisions are established or write-offs made to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish net realizable value. For impaired available for sale loans, recorded at fair value, the accumulated loss recorded in AOCI is reclassified to net investment income. Once an impairment loss on an available for sale asset is recorded in income it is not reversed. All gains and losses on bonds classified or designated as held for trading are already recorded in income. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed.

(c) Transaction Costs

Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading. Transaction costs for financial assets classified as available for sale or loans and receivables are added to the value of the instrument at acquisition and taken into net income using the effective interest rate method. Transaction costs for financial liabilities classified as other than held for trading are recognized immediately in net income.

(d) Cash and Cash Equivalents

Cash and cash equivalents are comprised of cash, current operating accounts, overnight bank and term deposits with original maturities of three months or less, and fixed-income securities with an original term to maturity of three months or less. Net payments in transit and overdraft bank balances are included in other liabilities. The carrying value of cash and cash equivalents approximates their fair value.

(e) Financial Liabilities

Financial liabilities, other than actuarial liabilities, are classified as other liabilities. Other liabilities are initially recorded on the Consolidated Balance Sheets at fair value and subsequently carried at amortized cost using the effective interest rate method with amortization expense recorded in the Summaries of Consolidated Operations.

(f) Derivative Financial Instruments

The Company uses derivative products as risk management instruments to hedge or manage asset, liability and capital positions, including revenues. The Company's policy guidelines prohibit the use of derivative instruments for speculative trading purposes.

Derivative financial instruments used by the Company are summarized in note 22, which includes disclosure of the maximum credit risk, future credit exposure, credit risk equivalent and risk weighted equivalent as prescribed by OSFI.

All derivatives including those that are embedded in financial and non-financial contracts that are not closely related to the host contracts are recorded at fair value on the Consolidated Balance Sheets in other assets and other liabilities (notes 7 and 11). The method of recognizing unrealized and realized fair value gains and losses depends on whether the derivatives are designated as hedging instruments. For derivatives that are not designated as hedging instruments, unrealized and realized gains and losses are recorded in net investment income on the Summaries of Consolidated Operations. For derivatives designated as hedging instruments, unrealized and realized gains and losses are recognized according to the nature of the hedged item.

1. Basis of Presentation and Summary of Accounting Policies (cont'd)

To qualify for hedge accounting, the relationship between the hedged item and the hedging instrument must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting treatment and both the hedged item and the hedging instrument are reported independently as if there was no hedging relationship.

Where a hedging relationship exists, the Company documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking derivatives that are used in hedging transactions to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. Hedge effectiveness is reviewed quarterly through a combination of critical terms matching and correlation testing.

Derivatives not designated as hedges for accounting purposes

For derivative investments not designated as accounting hedges, changes in fair value are recorded in net investment income.

Fair value hedges

For fair value hedges, changes in fair value of both the hedging instrument and the hedged item are recorded in net investment income and consequently any ineffective portion of the hedge is recorded immediately to net investment income.

The Company currently has interest rate futures designated as fair value hedges.

Cash flow hedges

Certain interest rate futures, interest rate swaps and cross-currency swaps are used to hedge cash flows. For cash flow hedges, the effective portion of the changes in fair value of the hedging instrument are recorded in the same manner as the hedged item in either net investment income or OCI while the ineffective portion is recognized immediately in net investment income. Gains and losses that accumulate in OCI are recorded in net investment income in the same period the hedged item affects net income. Gains and losses on cash flow hedges are immediately reclassified from OCI to net investment income if and when it is probable that a forecasted transaction is no longer expected to occur.

The Company currently has no derivatives designated as cash flow hedges.

Net Investment Hedges

Foreign exchange forward contracts are used to hedge the net investment in the Company's foreign operations. Changes in the fair value of these hedges are recorded in OCI. Hedge accounting is discontinued when the hedging instrument no longer qualifies for hedge accounting.

The Company currently has no derivatives designated as net investment hedges.

(g) Foreign Currency Translation

The Company follows the current rate method of foreign currency translation for its net investment in its self-sustaining foreign operations. Under this method, assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet dates and all income and expense items are translated at an average of daily rates. Unrealized foreign currency translation gains and losses on the Company's net investment in its self-sustaining foreign operations are presented separately as a component of OCI. Unrealized gains and losses will be recognized proportionately in net investment income on the Summaries of Consolidated Operations when there has been a net permanent disinvestment in the foreign operations. Foreign currency translation gains and losses on foreign currency transactions of the Company are included in net investment income and are not material to the financial statements of the Company.

(h) Loans to Policyholders

Loans to policyholders are shown at their unpaid balance and are fully secured by the cash surrender values of the policies. Carrying value of loans to policyholders approximates their fair value.

(i) Funds Held by Ceding Insurers/Funds Held Under Reinsurance Contracts

Under certain forms of reinsurance contracts, it is customary for the ceding insurer to retain possession of the assets supporting the liabilities ceded. The Company records an amount receivable from the ceding insurer or payable to the reinsurer representing the premium due. Investment revenue on these funds withheld is credited by the ceding insurer.

(j) Goodwill and Intangible Assets

Goodwill represents the excess of purchase consideration over the fair value of net assets of acquired subsidiaries of the Company. Intangible assets represent finite life and indefinite life intangible assets of acquired subsidiaries of the Company. Finite life intangible assets include the value of customer contracts and distribution channels. These finite life intangible assets are amortized over their estimated useful lives, generally not exceeding 20 years and 30 years respectively. The Company tests goodwill and indefinite life intangible assets for impairment using a two-step fair value-based test annually, and when an event or change in circumstances indicates that the asset might be impaired. Goodwill and intangible assets are written down when impaired to the extent that the carrying value exceeds the estimated fair value.

Impairment Testing

Goodwill

In the first test, goodwill is assessed for impairment by determining whether the fair value of the reporting unit to which the goodwill is associated is less than its carrying value. When the fair value of the reporting unit is less than its carrying value, the second test compares the fair value of the goodwill in that reporting unit to its carrying value. If the fair value of goodwill is less than its carrying value, goodwill is considered to be impaired and a charge for impairment is recognized immediately. The fair value of the reporting units is derived from internally developed valuation models consistent with those used when the company is acquiring businesses, using a market or income approach. The discount rates used are based on an industry weighted cost of capital and consider the risk free rate, market equity risk premium, size premium and operational risk premium for possible variations from projections.

Indefinite life intangibles

The fair value of intangible assets for customer contracts and the Shareholder portion of acquired future Participating account profits are estimated using an income approach as described for goodwill above. The fair value of brands and trademarks is estimated using a relief-from-royalty approach using the present value of expected after-tax royalty cash flows through licensing agreements.

(k) Revenue Recognition

Premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due and collection is reasonably assured. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

The Company's premium revenues, total paid or credited policyholders and policy liabilities are all shown net of reinsurance amounts ceded to, or including amounts assumed from, other insurers.

Fee and other income is recognized when earned, collectible and the amount can be reasonably estimated. Fee and other income primarily includes fees earned from the management of segregated fund assets, proprietary mutual funds assets, fees earned on the administration of administrative services only (ASO) Group health contracts and fees earned from investment management services.

(l) Fixed Assets

Included in other assets are fixed assets that are carried at cost less accumulated amortization computed on a straight-line basis over their estimated useful lives, which vary from 3 to 15 years. Amortization of fixed assets included in the Summaries of Consolidated Operations is $44 ($55 in 2007).

(m) Actuarial Liabilities

Actuarial liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with the Company. The Appointed Actuary of the Company is responsible for determining the amount of the actuarial liabilities to make appropriate provision for the Company's obligations to policyholders. The Appointed Actuary determines the actuarial liabilities using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method (CALM). This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment. Actuarial liabilities of the Company are discussed in note 8.

(n) Participating Account

The shareholder portion of participating earnings represents, as restricted by law, a portion of net income before policyholder dividends of the participating account, $67 in 2008 ($40 in 2007). The actual payment of the shareholder portion of participating earnings is legally determined as a percentage of policyholder dividends paid. $51 of shareholder surplus ($49 in 2007) that has been recognized but not paid is dependent on future payment of dividends to participating policyholders.

Canada Life's participating account is comprised of two main subdivisions. The liabilities for participating policies issued or assumed by Canada Life prior to demutualization are held in closed block sub-accounts. These liabilities for guaranteed and other non-guaranteed benefits are determined using best estimate assumptions. If at any time the value of the assets allocated to these policies were, in the opinion of the Appointed Actuary, less than the assets required in the long term to support the liabilities of these policies and the future reasonable expectations of the policyholders, assets having a sufficient value to rectify the situation would be transferred first from the additional ancillary sub-accounts maintained in the participating account for this purpose and then, if the deficiency is expected to be permanent, from the shareholder account. Any such transfers from the shareholder account would be recorded as a charge to shareholder net income.

The second main subdivision comprises the open block sub-accounts containing all liabilities in respect of new participating policies issued on or after demutualization. On demutualization, $50 of seed capital was transferred from shareholder surplus to the participating account. The seed capital amount, together with a reasonable rate of return, may be transferred to the shareholder account if the seed capital is no longer required to support the new participating policies. Transfers of seed capital to the shareholder account would be returns of capital and would be recorded as adjustments to shareholder surplus. A reasonable rate of return on seed capital will be recognized as income in the shareholder account and as an expense in the participating account when paid. $28 of seed capital has been repaid to date.

1. Basis of Presentation and Summary of Accounting Policies (cont'd)

(o) Income Taxes

The Company uses the liability method of income tax allocation. Current income taxes are based on taxable income and future income taxes are based on taxable temporary differences. The income tax rates used to measure income tax assets and liabilities are those rates enacted or substantively enacted at the balance sheet date (see note 21).

(p) Repurchase Agreements

The Company enters into repurchase agreements with third-party broker-dealers in which the Company sells securities and agrees to repurchase substantially similar securities at a specified date and price. Such agreements are accounted for as investment financings.

(q) Pension Plans and Other Post-Retirement Benefits

The Company and its subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company and its subsidiaries also maintain defined contribution pension plans for certain employees and advisors. The cost of defined pension benefits is charged to earnings using the projected benefit method prorated on services (see note 18).

The Company and its subsidiaries also provide post-retirement health, dental and life insurance benefits to eligible employees, advisors and their dependents. The cost of post-retirement health, dental and life insurance benefits is charged to earnings using the projected benefit method prorated on services (see note 18).

(r) Stock Based Compensation

Great-West Lifeco Inc. (Lifeco), the Company's parent, has a stock option plan that provides for the granting of options on common shares of Lifeco to certain officers and employees of Lifeco and its affiliates, which is described in note 17. The Company follows the fair value method of accounting for the valuation of compensation expense for options granted to employees under its stock option plan. Compensation expense is recognized as an increase to compensation expense in the Summaries of Consolidated Operations and an increase to contributed surplus over the vesting period of granted options.

(s) Earnings Per Common Share

Earnings per common share is calculated using net income after preferred share dividends and the weighted average number of common shares outstanding of 2,088,655 in 2008 (2,088,655 in 2007).

(t) Geographic Segmentation

The Company has significant operations in Canada, the United States, and Europe. Reinsurance operations and operations in all countries other than Canada and the United States are reported as part of the Europe/Reinsurance operations.

(u) Consolidation of Variable Interest Entities

The Company adopted the Emerging Issues Committee (EIC) of the CICA EIC-163, *Determining the Variability to be Considered in Applying AcG-15* on January 1, 2007. EIC-163 provides additional guidance on consolidation of variable interest entities. This change in accounting policy did not have a material impact to the financial statements of the Company.

(v) Comparative Figures

Certain of the 2007 amounts presented for comparative purposes have been reclassified to conform to the presentation adopted in the current year. This reclassification has resulted in a decrease in other assets of $169 at December 31, 2007 with a corresponding change in policy liabilities on the Consolidated Balance Sheets. On the Summaries of Consolidated Operations this reclassification resulted in a decrease in total paid or credited to policyholders of $97 for the year ended December 31, 2007 with a corresponding increase in income tax expense.

(w) Future Accounting Policies

Goodwill and Intangible Assets

Effective January 1, 2009, the Company will adopt the CICA Handbook Section 3064, *Goodwill and Intangible Assets*. This section replaces existing section 3062, *Goodwill and Other intangible assets*, and Section 3450, *Research and Development Costs*. This section establishes new standards for the recognition and measurement of intangible assets, but does not affect the accounting for goodwill. The Company does not anticipate that this standard will have a material impact to the financial results of the Company.

2. Acquisitions and Disposals

(a) On October 22, 2008, Great-West Life entered into an agreement with Fidelity Investments Canada ULC (Fidelity) whereby Fidelity will transition its Canadian group retirement and savings plan record-keeping business to Great-West Life, representing $2.2 billion in assets under administration. The financial statements of the Company do not include the assets, liabilities, deposits and withdrawals or claims payments related to this business, however the Company will earn fee and other income from it.

(b) On July 5, 2007, Canada Life acquired all of the outstanding common shares of Crown Life Insurance Company (Crown Life) for cash consideration of $118, including transaction costs. The acquisition was pursuant to the terms of the 1999 acquisition of the majority of the insurance operations of Crown Life by Canada Life.

The acquisition resulted in an initial increase in invested assets of $459, an increase in other assets of $24, an increase in policyholder liabilities of $336, an increase in other liabilities of $48, and estimated goodwill of $19. The amounts assigned to the assets acquired and liabilities assumed and associated goodwill may be adjusted when the allocation process has been finalized.

Results of Crown Life are included in the Summaries of Consolidated Operations from the date of acquisition.

(c) On August 3, 2007, Great-West Life acquired a 25% interest in T.H. Lee Partners (T.H. Lee), from Putnam Investment Trust for $388 (U.S. $350). The Company's 25% interest in T.H. Lee has been classified as an available-for-sale financial asset measured at cost.

3. Portfolio Investments

(a) Carrying values and estimated market values of portfolio investments are as follows:

2008	Carrying Value & Market Value			Amortized Cost				Total
	Available for sale	Held for trading [1] Designated	Held for trading [1] Classified	Carrying Value Loans and receivables	Market Value Loans and receivables	Carrying Value Non-financial instruments	Market Value Non-financial instruments	Carrying value
Bonds								
– government	$ 2,101	$ 13,392	$ 811	$ 310	$ 327	$ –	$ –	$ 16,614
– corporate	1,193	25,689	825	5,792	5,437	–	–	33,499
	3,294	39,081	1,636	6,102	5,764	–	–	50,113
Mortgage loans								
– residential	–	–	–	6,530	6,716	–	–	6,530
– non-residential	–	–	–	9,200	9,180	–	–	9,200
	–	–	–	15,730	15,896	–	–	15,730
Stocks	722	3,653	–	–	–	330	326	4,705
Real estate	–	–	–	–	–	3,023	2,858	3,023
	$ 4,016	$ 42,734	$ 1,636	$ 21,832	$ 21,660	$ 3,353	$ 3,184	$ 73,571

2007	Carrying Value & Market Value			Amortized Cost				Total
	Available for sale	Held for trading [1] Designated	Held for trading [1] Classified	Carrying Value Loans and receivables	Market Value Loans and receivables	Carrying Value Non-financial instruments	Market Value Non-financial instruments	Carrying value
Bonds								
– government	$ 1,386	$ 14,016	$ 611	$ 409	$ 446	$ –	$ –	$ 16,422
– corporate	1,215	27,460	1,006	5,208	5,262	–	–	34,889
	2,601	41,476	1,617	5,617	5,708	–	–	51,311
Mortgage loans								
– residential	–	–	–	6,723	6,685	–	–	6,723
– non-residential	–	–	–	7,926	8,120	–	–	7,926
	–	–	–	14,649	14,805	–	–	14,649
Stocks	802	4,791	–	–	–	320	461	5,913
Real estate	–	–	–	–	–	2,419	2,702	2,419
	$ 3,403	$ 46,267	$ 1,617	$ 20,266	$ 20,513	$ 2,739	$ 3,163	$ 74,292

(1) Investments can be held for trading in two ways: designated as held for trading at the option of management; or, classified as held for trading if they are actively traded for the purpose of earning investment income.

During the period, the Company concluded that an internal model would result in a more representative measurement of fair market value for a portfolio of bonds. An external valuation source was previously used. Utilizing the internal model to value these securities, which have a fair market value of $50, resulted in an increase in carrying value of $21.

3. Portfolio Investments (cont'd)

(b) Stocks include the Company's investment in an affiliated company, IGM Financial Inc. (IGM), a member of the Power Financial Corporation group of companies, over which it exerts significant influence but does not control. The investment is accounted for using the equity method of accounting.

	2008	2007
Carrying value, beginning of year	$ 320	$ 306
Equity method earnings	28	30
Dividends	(18)	(16)
Carrying value, end of year	$ 330	$ 320
Share of equity, end of year	$ 148	$ 142
Fair value, end of year	$ 326	$ 461

The Company owns 9,205,897 shares of IGM at December 31, 2008 (9,206,401 at December 31, 2007) representing a 3.51% ownership interest (3.48% at December 31, 2007).

(c) Included in portfolio investments are the following:

(i) Impaired investments

	2008	2007
Bonds	$ 23	$ 13
Mortgage loans	20	(1)
	$ 43	$ 12

Impaired investments reflect gross amounts of $176 ($31 in 2007) reduced by other than temporary loss amounts of $133 ($19 in 2007). Included in the other than temporary loss amounts are portfolio provisions of $13 ($11 in 2007).

(ii) The allowance for credit losses and changes in the allowance for credit losses related to investments classified as loans and receivables are as follows:

	2008			2007		
	Bonds	Mortgage Loans	Total	Bonds	Mortgage Loans	Total
Balance, beginning of year	$ 9	$ 10	$ 19	$ 12	$ 12	$ 24
Net provision (recoveries) for credit losses – in year	1	4	5	(2)	–	(2)
Write-offs, net of recoveries	(3)	2	(1)	1	–	1
Other (including foreign exchange rate changes)	1	2	3	(2)	(2)	(4)
Balance, end of period	$ 8	$ 18	$ 26	$ 9	$ 10	$ 19

The allowance for credit losses is supplemented by the provision for future credit losses included in actuarial liabilities.

(d) Net investment income is comprised of the following:

	2008					
	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Regular net investment income:						
Investment income earned	$ 3,331	$ 865	$ 253	$ 159	$ 152	$ 4,760
Net realized gains (losses) *(available for sale)*	45	–	(12)	–	–	33
Net realized gains (losses) *(other classifications)*	21	21	–	–	–	42
Amortization of net realized/unrealized gains *(non-financial instruments)*	–	–	–	23	–	23
Net (provision) recovery of credit losses *(loans and receivables)*	(1)	(4)	–	–	–	(5)
Other income and expenses	–	–	–	–	(51)	(51)
	3,396	882	241	182	101	4,802
Changes in fair value on held for trading assets:						
Net realized/unrealized gains (losses) *(classified held for trading)*	11	–	–	–	–	11
Net realized/unrealized gains (losses) *(designated held for trading)*	(2,546)	–	(1,632)	–	111	(4,067)
	(2,535)	–	(1,632)	–	111	(4,056)
Net investment income	$ 861	$ 882	$ (1,391)	$ 182	$ 212	$ 746

	2007					
	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Regular net investment income:						
Investment income earned	$ 2,762	$ 799	$ 237	$ 118	$ 307	$ 4,223
Net realized gains (losses) *(available for sale)*	42	–	5	–	–	47
Net realized gains (losses) *(other classifications)*	12	19	–	–	–	31
Net impairment recoveries	2	–	–	–	–	2
Amortization of deferred net realized gains	–	–	–	70	–	70
Other income and expenses	–	–	–	–	(52)	(52)
	2,818	818	242	188	255	4,321
Changes in fair value on held for trading assets:						
Net realized/unrealized gains (losses) *(classified held for trading)*	(13)	–	–	–	–	(13)
Net realized/unrealized gains (losses) *(designated held for trading)*	(999)	–	132	–	(135)	(1,002)
	(1,012)	–	132	–	(135)	(1,015)
Net investment income	$ 1,806	$ 818	$ 374	$ 188	$ 120	$ 3,306

(e) Also included in portfolio investments are modified/restructured loans of $1 ($2 in 2007) that are performing in accordance with their current terms.

4. Financial Instrument Risk Management

The Company has policies relating to the identification, measurement, monitoring, mitigating, and controlling of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and market risk (currency, interest rate and equity). The following sections describe how the Company manages each of these risks.

(a) Credit Risk

Credit risk is the risk of financial loss resulting from the failure of debtors making payments when due. The following policies and procedures are in place to manage this risk:

- Investment guidelines are in place that require only the purchase of investment-grade assets and minimize undue concentration of assets in any single geographic area, industry and company.
- Investment guidelines specify minimum and maximum limits for each asset class. Credit ratings are determined by recognized external credit rating agencies and/or internal credit review.
- Investment guidelines also specify collateral requirements.
- Portfolios are monitored continuously, and reviewed regularly with the Boards of Directors or the Investment Committees of the Boards of Directors.
- Credit risk associated with derivative instruments is evaluated quarterly based on conditions that existed at the balance sheet date, using practices that are at least as conservative as those recommended by regulators.
- The Company is exposed to credit risk relating to premiums due from policyholders during the grace period specified by the insurance policy or until the policy is paid up or terminated. Commissions paid to agents and brokers are netted against amounts receivable, if any.
- Reinsurance is placed with counterparties that have a good credit rating and concentration of credit risk is managed by following policy guidelines set each year by the Board of Directors. Management continuously monitors and performs an assessment of creditworthiness of reinsurers.

(i) Maximum Exposure to Credit Risk

The following table summarizes the Company's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses.

	2008	2007
Cash and cash equivalents	**$ 2,561**	$ 3,203
Bonds		
Held for trading	**40,717**	43,093
Available for sale	**3,294**	2,601
Amortized cost	**6,102**	5,617
Mortgage loans	**15,730**	14,649
Loans to policyholders	**2,768**	2,587
Other financial assets	**13,648**	3,540
Derivative assets	**564**	885
Total balance sheet maximum credit exposure	**$ 85,384**	$ 76,175

4. Financial Instrument Risk Management (cont'd)

Credit risk is also mitigated by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Management monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable.

(ii) Concentration of Credit Risk

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries. The characteristics are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due.

The following table provides details of the carrying value of bonds by industry sector and geographic distribution:

	2008
Bonds issued or guaranteed by:	
Canadian federal government	$ 1,865
Canadian provincial and municipal governments	4,600
U.S. Treasury and other U.S. agencies	1,862
Other foreign governments	6,854
Government related	1,563
Sovereign	1,739
Asset-backed securities	4,006
Residential mortgage backed securities	281
Banks	4,646
Other financial institutions	2,616
Basic materials	413
Communications	956
Consumer products	3,169
Industrial products/services	1,387
Natural resources	1,479
Real estate	1,645
Transportation	2,038
Utilities	5,616
Miscellaneous	1,594
Total long term bonds	48,329
Short term bonds	1,784
	$ 50,113
Canada	$ 25,016
United States	2,560
Europe/Reinsurance	22,537
	$ 50,113

The following table provides details of the carrying value of mortgage loans by geographic location:

	2008			
	Single family residential	Multi-family residential	Commercial	Total
Canada	$ 1,850	$ 4,524	$ 6,144	$ 12,518
United States	–	120	323	443
Europe/Reinsurance	–	36	2,733	2,769
Total mortgages	$ 1,850	$ 4,680	$ 9,200	$ 15,730

	2007			
	Single family residential	Multi-family residential	Commercial	Total
Canada	$ 1,794	$ 4,783	$ 5,403	$ 11,980
United States	–	116	303	419
Europe/Reinsurance	–	30	2,220	2,250
Total mortgages	$ 1,794	$ 4,929	$ 7,926	$ 14,649

(iii) Asset Quality

Bond Portfolio Quality	2008	2007
AAA	$ 17,775	$ 20,176
AA	9,386	9,839
A	15,027	14,528
BBB	6,016	5,234
BB and lower	125	233
	48,329	50,010
Short term bonds	1,784	1,301
Total bonds	$ 50,113	$ 51,311

Derivative Portfolio Quality	2008	2007
Over-the-counter contracts (counterparty ratings):		
AA	$ 162	$ 583
A	377	351
Total	$ 539	$ 934

(iv) Loans Past Due, But Not Impaired

Loans that are past due but not considered impaired are loans for which scheduled payments have not been received, but management has reasonable assurance of timely collection of the full amount of principal and interest due. The following table provides carrying values of the loans past due, but not impaired:

	2008	2007
Less than 30 days	$ 50	$ 87
30-90 days	2	1
90 days and greater	1	1
Total	$ 53	$ 89

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The following policies and procedures are in place to manage this risk:

- The Company closely manages operating liquidity through cash flow matching of assets and liabilities.
- Management monitors the use of line of credit on a regular basis, and assesses the ongoing availability of these and alternative forms of operating credit.
- Management closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements of the Company.

In the normal course of business the Company enters into contracts that give rise to commitments of future minimum payments that impact short-term and long-term liquidity. The following table summarizes the principal repayment schedule of certain of the Company's financial liabilities.

	Payments due by period						
	Total	1 year	2 years	3 years	4 years	5 years	over 5 years
Debentures and other debt instruments	$ 306	$ 1	$ 1	$ 1	$ 1	$ 1	$ 301
Capital trust debentures [(1)]	800	–	–	–	–	–	800
Purchase obligations	39	19	10	10	–	–	–
Pension contributions	67	67	–	–	–	–	–
	$ 1,212	$ 87	$ 11	$ 11	$ 1	$ 1	$ 1,101

(1) Payments due have not been reduced to reflect the Company held capital trust securities of $175 principal amount ($167 carrying value).

4. Financial Instrument Risk Management (cont'd)

(c) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market factors include three types of risks: currency risk, interest rate risk and equity risk.

(i) Currency Risk

Currency risk relates to the Company operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. The following policies and procedures are in place to mitigate the Company's exposure to currency risk.

- The Company uses financial measures such as constant currency calculations to monitor the effect of currency translation fluctuations.
- Investments are normally made in the same currency as the liabilities supported by those investments.
- Foreign currency assets acquired to back liabilities are normally converted back to the currency of the liability using foreign exchange contracts.
- A 10% increase in foreign currency rates would be expected to have minimal impact on non-participating actuarial liabilities. A 10% decrease in foreign currency rates would be expected to have minimal impact on non-participating actuarial liabilities.

(ii) Interest Rate Risk

Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change causing a difference in value between the asset and liability. The following policies and procedures are in place to mitigate the Company's exposure to interest rate risk.

- The Company utilizes a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in the segment.
- Interest rate risk is managed by investing in assets that are suitable for the products sold.
- For products with fixed and highly predictable benefit payments, investments are made in fixed income assets that closely match the liability product cash flows. Protection against interest rate change is achieved as any change in the fair market value of the assets will be offset by a similar change in the fair market value of the liabilities.
- For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments, or equities as described below.
- The risk associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

Projected cash flows from the current assets and liabilities are used in CALM to determine actuarial liabilities. Cash flows from assets are reduced to provide for potential asset default losses. Testing under several interest rate scenarios (including increasing and decreasing rates) is done to assess reinvestment risk.

One way of measuring the interest rate risk associated with this assumption is to determine the effect on the present value of the projected net asset and liability cash flows of the non-participating business of the Company of an immediate and permanent 1% increase and 1% decrease in interest rates at each future duration. These interest rate changes will impact the projected cash flows.

- The effect of an immediate and permanent 1% increase in interest rates at each future duration would be to decrease the present value of these net projected cash flows by approximately $31.
- The effect of an immediate and permanent 1% decrease in interest rates at each future duration would be to decrease the present value of these net projected cash flows by approximately $118.

(iii) Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. To mitigate price risk, the Company has investment policy guidelines in place that provide for prudent investment in equity markets within clearly defined limits.

Some policy liabilities are supported by equities, for example segregated fund products and products with long-tail liabilities. Generally these liabilities will fluctuate in line with equity market values. There will be additional impacts on these liabilities as equity market values fluctuate. A 10% increase in equity markets would be expected to additionally decrease non-participating actuarial liabilities by approximately $41. A 10% decrease in equity markets would be expected to additionally increase non-participating actuarial liabilities by approximately $244.

5. Pledging of Assets

The amount of assets which have a security interest by way of pledging is $6 ($6 in 2007) in respect of derivative transactions and $600 ($733 in 2007) in respect of reinsurance agreements.

6. Goodwill and Intangible Assets

(a) Goodwill

The carrying value of goodwill, all in the shareholder account, and changes in carrying value of goodwill are as follows:

	2008	2007
Balance, beginning of year	$ 5,269	$ 5,250
Acquisition of Crown Life (note 2)	–	19
Other acquisitions by subsidiaries	–	1
Changes in foreign exchange rates	1	(1)
Balance, end of year	$ 5,270	$ 5,269

(b) Intangible Assets

The carrying value of intangible assets and changes in the carrying value of intangible assets are as follows:

2008	Cost	Accumulated amortization	Changes in foreign exchange rates	Carrying value, end of year
Indefinite life intangible assets				
– Brands and trademarks	$ 410	$ –	$ (19)	$ 391
– Customer contract related	354	–	–	354
– Shareholder portion of acquired future Participating account profits	354	–	–	354
	1,118	–	(19)	1,099
Finite life intangible assets				
– Customer contract related	304	(77)	(4)	223
– Distribution channels	127	(20)	(10)	97
	431	(97)	(14)	320
Total	$ 1,549	$ (97)	$ (33)	$ 1,419

2007	Cost	Accumulated amortization	Changes in foreign exchange rates	Carrying value, end of year
Indefinite life intangible assets				
– Brands and trademarks	$ 410	$ –	$ (16)	$ 394
– Customer contract related	354	–	–	354
– Shareholder portion of acquired future Participating account profits	354	–	–	354
	1,118	–	(16)	1,102
Finite life intangible assets				
– Customer contract related	284	(63)	(3)	218
– Distribution channels	127	(16)	(12)	99
	411	(79)	(15)	317
Total	$ 1,529	$ (79)	$ (31)	$ 1,419

During 2008, in connection with the transition of the Canadian group retirement and savings plan record-keeping business of Fidelity (note 2), the Company acquired approximately $20 of finite life intangible assets relating to customer contract related intangible assets. The value assigned to these intangible assets will be adjusted in 2009 as part of the finalization of the transaction in 2009.

7. Other Assets

Other assets consist of the following:

	2008	2007
Premiums in course of collection	$ 450	$ 453
Interest due and accrued	890	873
Derivative financial instruments	564	885
Other investment receivables	90	218
Current income taxes	382	–
Future income taxes (note 21)	92	186
Fixed assets	199	168
Prepaid expenses	58	54
Accounts receivable	281	415
Accrued pension asset (note 18)	258	220
Other	162	109
	$ 3,426	$ 3,581

8. Actuarial Liabilities

(a) Composition of Actuarial Liabilities and Related Supporting Assets

(i) The composition of actuarial liabilities is as follows:

	Participating		Non-participating		Total	
	2008	2007	2008	2007	2008	2007
Individual Insurance & Investment Products	$ 19,194	$ 19,733	$ 15,344	$ 16,096	$ 34,538	$ 35,829
Group Insurance	–	–	4,508	4,580	4,508	4,580
Europe/Reinsurance	1,571	1,739	33,908	25,986	35,479	27,725
Corporate	1,558	1,296	1,489	1,420	3,047	2,716
Total	$ 22,323	$ 22,768	$ 55,249	$ 48,082	$ 77,572	$ 70,850

(ii) The composition of the assets supporting liabilities and surplus is as follows:

	2008					
	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Carrying value						
Participating	$ 10,855	$ 5,684	$ 2,512	$ 257	$ 3,016	$ 22,324
Non-participating						
Individual Insurance & Investment Products	9,298	3,908	692	8	1,437	15,343
Group Insurance	2,590	1,374	48	–	496	4,508
Europe/Reinsurance	16,714	2,302	152	1,809	12,931	33,908
Corporate	962	229	–	–	298	1,489
Other liabilities	4,687	1,562	916	270	2,126	9,561
Participating account surplus	1,338	395	2	38	224	1,997
Capital and surplus	3,669	276	383	641	6,363	11,332
Total carrying value	$ 50,113	$ 15,730	$ 4,705	$ 3,023	$ 26,891	$ 100,462
Market value	$ 49,775	$ 15,896	$ 4,701	$ 2,858	$ 26,891	$ 100,121

	2007					
	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Carrying value						
Participating	$ 10,664	$ 5,299	$ 3,383	$ 225	$ 3,197	$ 22,768
Non-participating						
Individual Insurance & Investment Products	9,955	3,993	800	5	1,343	16,096
Group Insurance	2,572	1,393	79	–	536	4,580
Europe/Reinsurance	19,036	1,984	183	1,326	3,457	25,986
Corporate	1,045	337	–	–	38	1,420
Other liabilities	3,614	1,265	538	213	3,102	8,732
Participating account surplus	1,268	303	4	44	298	1,917
Capital and surplus	3,157	75	926	606	5,606	10,370
Total carrying value	$ 51,311	$ 14,649	$ 5,913	$ 2,419	$ 17,577	$ 91,869
Market value	$ 51,402	$ 14,805	$ 6,054	$ 2,702	$ 17,577	$ 92,540

Cash flows of assets supporting actuarial liabilities are matched within reasonable limits. Changes in the fair value of these assets are essentially offset by changes in the fair value of actuarial liabilities.

Changes in the fair values of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus over time in accordance with investment accounting policies.

(b) Changes in Actuarial Liabilities

The change in actuarial liabilities during the year was the result of the following business activities and changes in actuarial estimates:

	Participating		Non-participating		Total	
	2008	2007	2008	2007	2008	2007
Balance, end of previous year	**$ 22,768**	$ 19,882	**$ 48,082**	$ 47,729	**$ 70,850**	$ 67,611
Fair value adjustment	–	1,708	–	2,113	–	3,821
Balance, beginning of year	**22,768**	21,590	**48,082**	49,842	**70,850**	71,432
Impact of new business	**(8)**	7	**2,920**	2,872	**2,912**	2,879
Normal change in force	**(876)**	426	**(5,566)**	(3,120)	**(6,442)**	(2,694)
Management action and changes in assumptions	**41**	(3)	**59**	60	**100**	57
Business movement from/to affiliates	–	1,031	–	875	–	1,906
Business movement from/to external parties	–	76	**12,162**	1,903	**12,162**	1,979
Impact of foreign exchange rate changes	**398**	(359)	**(2,408)**	(4,350)	**(2,010)**	(4,709)
Balance, end of year	**$ 22,323**	$ 22,768	**$ 55,249**	$ 48,082	**$ 77,572**	$ 70,850

The 2007 amounts presented above for comparative purposes have reflected the reclassification of liabilities between tax liabilities and actuarial liabilities to conform to the presentation adopted in the current year.

With the adoption of fair value accounting in 2007, movement in the market value of the supporting assets has become a major factor in the movement of actuarial liabilities. The movement in the actuarial liabilities on introduction of fair value is noted in the Fair Value Adjustment line above. The movement during 2007 and 2008 is included in the Normal Change In Force above.

In 2008 the major contributors to the increase in actuarial liabilities were the reinsurance of a large block of UK payout annuities from Standard Life Assurance Limited and the impact of new business, partially offset by the normal change in the in force business and the impact of foreign exchange rates.

Non-participating actuarial liabilities increased by $59 in 2008 due to management actions and assumption changes. This increase was primarily due to strengthened life annuitant mortality in Europe ($203 increase), strengthened provisions for asset default ($108 increase) and strengthened provisions for asset liability matching ($123 increase), partially offset by improved morbidity ($158 decrease), Canadian Individual Life mortality ($105 decrease) and two annuitant mortality risk transfer agreements ($98 decrease).

Participating actuarial liabilities increased by $41 in 2008 due to management actions and assumption changes. This increase was primarily due to lowered investment returns ($76 increase) and an increase in the provision for future policyholder dividends ($93 increase), partially offset by improved life mortality ($66 decrease) and improved expenses and taxes ($62 decrease).

In 2007 the major contributors to the growth in actuarial liabilities, in addition to the impact of the opening fair value adjustment, were the recapture of the US life and annuity business originally ceded from Canada Life US Branch to Great-West Life & Annuity Insurance Company (GWL&A), the recapture from an external reinsurer of the remainder of the group business not recaptured in 2006 and the acquisition of all of the outstanding common shares of Crown Life partially offset by the impact of foreign exchange rates.

Non-participating actuarial liabilities increased by $60 in 2007 due to management actions and assumption changes. This increase was primarily due to strengthened provisions for asset liability matching ($146 increase), and life annuitant mortality strengthening ($88 increase), partially offset by improved life mortality ($70 decrease), reduced expense and tax provisions ($57 decrease) and reduced Group waiver and LTD provisions ($51 decrease).

8. Actuarial Liabilities (cont'd)

Participating actuarial liabilities decreased by $3 in 2007 due to management actions and assumption changes. This decrease was primarily due to improved investment returns ($265 decrease), reduced expense and tax provisions ($188 decrease) and improved life mortality ($149 decrease), partially offset by an increase in the provision for future policyholder dividends ($558 increase).

(c) Actuarial Assumptions

In the computation of actuarial liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses and rates of policy termination. The valuation assumptions use best estimates of future experience together with a margin for misestimation and experience deterioration. These margins have been set in accordance with guidelines established by the Canadian Institute of Actuaries and are necessary to provide reasonable assurance that actuarial liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

The methods for arriving at these valuation assumptions are outlined below:

Mortality

A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update the Company's experience valuation mortality tables for that business. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. Although mortality improvements have been observed for many years, for life insurance valuation the mortality provisions (including margin) do not allow for future improvements. A 1% increase in the best estimate assumption would increase non-participating actuarial liabilities by approximately $82.

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants. A 1% decrease in the best estimate assumption would increase non-participating actuarial liabilities by approximately $123.

Morbidity

The Company uses industry developed experience tables modified to reflect emerging company experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation. For products for which morbidity is a significant assumption a 1% adverse change in the best estimate assumptions would increase non-participating actuarial liabilities by approximately $60.

Property and casualty reinsurance

Actuarial liabilities for property and casualty reinsurance written by LRG, a subsidiary of London Life Insurance Company (London Life), are determined using accepted actuarial practices for life insurers in Canada. Reflecting the long-term nature of the business, reserves have been established using cash flow valuation techniques including discounting. The reserves are based on cession statements provided by ceding companies. In certain instances, LRG management adjusts cession statement amounts to reflect management's interpretation of the treaty. Differences will be resolved via audits and other loss mitigation activities. In addition, reserves also include an amount for incurred but not reported losses (IBNR) which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated and adjustments to estimates are reflected in income. LRG analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in depth analysis is undertaken of the cedant experience.

Investment returns

The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in CALM to determine actuarial liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk (see note 4(c)).

Expenses

Unit expense studies are updated regularly to determine an appropriate estimate of future expenses for the liability type being valued. Expense improvements are not projected. An inflation assumption is incorporated in the estimate of future expenses consistent with the interest rate scenarios projected under CALM. A 10% increase in the best estimate maintenance unit expense assumption Company wide would increase the non-participating actuarial liabilities by approximately $141.

Policy termination

Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where the Company has no experience with specific types of policies or its exposure is limited. A 10% adverse change in the best estimate policy termination assumption would increase non-participating actuarial liabilities by approximately $257.

Policyholder dividends

Future policyholder dividends are included in the determination of actuarial liabilities for participating policies, with the assumption that policyholder dividends will change in the future to reflect the experience of the respective participating accounts, consistent with the participating policyholder dividend policies. It is our expectation that associated with changes in the best estimate assumptions for participating business would be corresponding changes in policyholder dividend scales, resulting in an immaterial net change in actuarial liabilities for participating business.

(d) Risk Management

(i) Interest rate risk

Interest rate risk is managed by effectively matching portfolio investments with liability characteristics. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes.

(ii) Credit risk

Credit risk is managed through an emphasis on quality in the investment portfolio and by maintenance of issuer, industry and geographic diversification standards.

Projected investment returns are reduced to provide for future credit losses on assets. The net effective yield rate reduction averaged .19% (.16% in 2007). The calculation for future credit losses on assets is based on the credit quality of the underlying asset portfolio.

The following outlines the future asset credit losses provided for in actuarial liabilities. These amounts are in addition to the allowance for asset losses included with assets:

	2008	2007
Participating	$ 533	$ 536
Non-participating	1,040	734
	$ 1,573	$ 1,270

(iii) Reinsurance risk

Maximum benefit amount limits per insured life (which vary by line of business) are established for life and health insurance and reinsurance is purchased for amounts in excess of those limits.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

As a result of reinsurance, actuarial liabilities have been reduced by the following amounts:

	2008	2007
Participating	$ 34	$ 33
Non-participating	5,359	4,756
	$ 5,393	$ 4,789

Certain of the reinsurance contracts are on a funds withheld basis where the Company retains the assets supporting the reinsured actuarial liabilities, thus minimizing the exposure to significant losses from reinsurer insolvency on those contracts.

(iv) Foreign exchange risk

If the assets backing actuarial liabilities are not matched by currency, changes in foreign exchange rates can expose the Company to the risk of foreign exchange losses not offset by liability decreases.

Foreign exchange risk is managed whenever possible by matching assets with related liabilities by currency and through the use of derivative instruments such as forward contracts and cross-currency swaps. These financial instruments allow the Company to modify an asset position to more closely match actual or committed liability currency.

(v) Liquidity risk

Liquidity risk is the risk that the Company will have difficulty raising funds to meet commitments. The liquidity needs of the Company are closely managed through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Approximately 71% of policy liabilities are non-cashable prior to maturity or subject to market value adjustments.

9. Financing Charges

Financing charges consist of the following:

	2008	2007
Interest on long-term debentures and other debt instruments	$ 30	$ 31
Interest on capital trust debentures	49	49
Other	3	3
Distributions on capital trust securities held by consolidated group as temporary investments	(12)	(12)
Total	$ 70	$ 71

10. Debentures and Other Debt Instruments

Debentures and other debt instruments consist of the following:

	2008		2007	
	Carrying value	Market value	Carrying value	Market value
Long term				
Operating:				
Notes payable with interest of 8.0% due May 6, 2014, unsecured	$ 6	$ 6	$ 6	$ 6
Capital:				
Great-West				
6.74% debentures due November 24, 2036, unsecured (note 20)	200	200	200	200
Canada Life				
Subordinated debentures due December 11, 2013 bearing a fixed rate of 5.8% until December 11, 2008 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 1%, unsecured	–	–	200	202
6.40% subordinated debentures due December 11, 2028, unsecured	100	86	100	111
Acquisition related fair market value adjustment	1	–	3	–
	101	86	303	313
	301	286	503	513
Total debentures and other debt instruments	$ 307	$ 292	$ 509	$ 519

On December 11, 2008, Canada Life repaid the $200 principal amount of the 5.8% subordinated debentures.

11. Other Liabilities

Other liabilities consist of the following:

	2008	2007
Current income taxes	$ 153	$ 109
Accounts payable	487	336
Pension and other post-retirement benefits (note 18)	446	438
Future income taxes (note 21)	304	256
Derivative financial instruments	780	88
Other	1,219	1,366
	$ 3,389	$ 2,593

12. Perpetual Preferred Shares Issued by Subsidiary

	2008	2007
Perpetual preferred shares:		
Classified as non-controlling interests		
CLFC Series B, 6.25% Non-Cumulative	$ 145	$ 145
Acquisition related fair market value adjustment	5	7
	$ 150	$ 152

13. Capital Trust Securities and Debentures

	2008		2007	
	Carrying value	Market value	Carrying value	Market value
Capital trust debentures:				
5.995% Senior Debentures due December 31, 2052, unsecured (GWLCT)	$ 350	$ 361	$ 350	$ 368
6.679% Senior Debentures due June 30, 2052, unsecured (CLCT)	300	315	300	322
7.529% Senior Debentures due June 30, 2052, unsecured (CLCT)	150	156	150	194
	800	832	800	884
Acquisition related fair market value adjustment	25	–	28	–
Trust securities held by consolidated group as temporary investments	(167)	(165)	(189)	(190)
Total	$ 658	$ 667	$ 639	$ 694

Great-West Life Capital Trust (GWLCT), a trust established by the Company, had issued $350 of capital trust securities, the proceeds of which were used by GWLCT to purchase Great-West Life senior debentures in the amount of $350, and Canada Life Capital Trust (CLCT), a trust established by Canada Life, had issued $450 of capital trust securities, the proceeds of which were used by CLCT to purchase Canada Life senior debentures in the amount of $450. Distributions and interest on the capital trust securities are classified as financing charges on the Summaries of Consolidated Operations (see note 9).

14. Participating Account

The Company controls a 100% equity interest in London Life and Canada Life at December 31, 2008 and December 31, 2007. The participating operations and the participating balance sheets are presented as combined or consolidated in the operations in the Company's financial statements. The following tables provide additional information related to the operations and financial position of each entity.

On demutualization, $50 of seed capital was transferred from the shareholder account to the participating policyholder account of The Canada Life Assurance Company (Canada Life). In accordance with the Conversion Proposal of Canada Life, the seed capital amount, together with a reasonable rate of return, may be transferred back to the shareholder account if the seed capital is no longer required to support the new participating policies.

In 2008, $5 of seed capital related to the Canadian open block of the participating policyholder account, together with accrued interest of $3 after-tax, was transferred from the participating policyholder account to the shareholder account. The repatriation (exclusive of interest) resulted in an increase in shareholder surplus of $5 and a decrease in participating policyholder surplus of $5. $28 of seed capital has been repaid to date.

(a) Net Income, participating account:

	2008	2007
Net income attributable to participating account before policyholder dividends		
Great-West Life	$ 129	$ 114
London Life	745	746
Canada Life	212	225
	1,086	1,085
Policyholder dividends		
Great-West Life	(122)	(113)
London Life	(679)	(623)
Canada Life	(226)	(220)
	(1,027)	(956)
Net income – participating account	$ 59	$ 129

(b) Participating account surplus:

	2008	2007
(i) Participating account accumulated surplus		
Great-West Life	$ 410	$ 403
London Life	1,568	1,502
Canada Life	14	33
	1,992	1,938
(ii) Participating account accumulated other comprehensive income (loss):		
Great-West Life	7	8
London Life	(19)	(32)
Canada Life	17	3
Accumulated other comprehensive income – participating account	5	(21)
	$ 1,997	$ 1,917

(c) Participating account – Other comprehensive income:

	2008	2007
Other comprehensive income (loss) attributable to participating account		
Great-West Life	$ (1)	$ (2)
London Life	13	(17)
Canada Life	14	1
Other comprehensive income (loss) – participating account	$ 26	$ (18)

15. Share Capital

Authorized:

Unlimited Preferred Shares

Unlimited Common Shares

	2008		2007	
	Number	Amount	Number	Amount
Issued and outstanding:				
Preferred shares:				
Series O, 5.55% Non-Cumulative Preferred Shares	**6,278,671**	**$ 157**	6,278,671	$ 157
Series Q, 5.00% Non-Cumulative Preferred Shares	**40,000**	**1**	40,000	1
Balance, end of year	**6,318,671**	**$ 158**	6,318,671	$ 158
Common shares	**2,088,655**	**$ 6,116**	2,088,655	$ 6,116
Total share capital		**$ 6,274**		$ 6,274

Preferred shares

The Series O, 5.55% Non-Cumulative Preferred Shares are redeemable at the option of the Company for $25 per share and are convertible into Series P Preferred Shares at the option of the holder on October 31, 2010 and on October 31 in every fifth year thereafter, subject to the regulatory approval.

The Series Q, 5.00% Non-Cumulative Preferred Shares are redeemable at the option of the Company for $25 per share on the later of December 31, 2007 and the date on which there are no Great-West Life Capital Trust Securities outstanding in GWLCT, subject to regulatory approval.

During 2007 the Company redeemed the Series L, 5.20% Non-Cumulative preferred shares at a price of $25 per share.

16. Capital Management

At the consolidated company level, the Company monitors the amount of consolidated capital available, and the amounts deployed in its various operating subsidiaries. The amount of capital deployed in any particular company or country is dependent upon local regulatory requirements as well as the Company's internal assessment of capital requirements in the context of its operational risks and requirements, and strategic plans.

Since the timing of available funds cannot always be matched precisely to commitments, imbalances may arise when demands for funds exceed those on hand. Also, a demand for funds may arise as a result of the Company taking advantage of current investment opportunities. The sources of the funds that may be required in such situations include bank financing and the issuance of debentures and equity securities.

The Company's practice is to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate.

In Canada, OSFI has established a capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the Minimum Continuing Capital and Surplus Requirements (MCCSR).

For Canadian regulatory reporting purposes, capital is defined by OSFI in its MCCSR guideline.

The following table provides the MCCSR information and ratios for Great-West Life:

	2008	2007
Capital Available:		
Tier 1 Capital		
Common shares	$ 6,116	$ 6,116
Shareholder surplus	5,604	4,672
Qualifying non-controlling interests	150	152
Innovative instruments	648	636
Other Tier 1 Capital Elements	1,513	1,337
Gross Tier 1 Capital	14,031	12,913
Deductions from Tier 1:		
Goodwill & intangible assets in excess of limit	5,673	5,724
Other deductions	1,697	1,219
Net Tier 1 Capital	6,661	5,970
Tier 2 Capital		
Tier 2A	345	456
Tier 2B allowed	300	502
Tier 2C	1,550	1,262
Tier 2 Capital Allowed	2,195	2,220
Total Tier 1 and Tier 2 Capital	8,856	8,190
Less: Deductions/Adjustments	124	101
Total Available Capital	$ 8,732	$ 8,089
Capital Required:		
Assets Default & market risk	$ 1,510	$ 1,457
Insurance Risks	1,800	1,675
Interest Rate Risks	803	888
Other	50	(76)
Total Capital Required	$ 4,163	$ 3,944
MCCSR ratios:		
Tier 1	160%	151%
Total	210%	205%

As at December 31, 2008 and 2007 the Company maintained capital levels above the minimum local requirements in its other foreign operations.

The capitalization of the Company and its operating subsidiaries will also take into account the views expressed by the various credit rating agencies that provide financial strength and other ratings to the Company.

The Company is both a user and a provider of reinsurance, including both traditional reinsurance, which is undertaken primarily to mitigate against assumed insurance risks, and financial or finite reinsurance, under which the amount of insurance risk passed to the reinsurer or its reinsureds may be more limited.

The Company has also established policies and procedures designed to identify, measure and report all material risks. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan. The Board of Directors reviews and approves all capital transactions undertaken by management.

17. Stock Based Compensation

Lifeco has a stock option plan (the Plan) pursuant to which options to subscribe for common shares of Lifeco may be granted to certain officers and employees of Great-West Life and its affiliates. Lifeco's Compensation Committee (the Committee) administers the Plan and, subject to the specific provisions of the Plan, fixes the terms and conditions upon which options are granted. The exercise price of each option granted under the Plan is fixed by the Committee, but cannot under any circumstances be less than the weighted-average trading price per Lifeco common share on the Toronto Stock Exchange for the five trading days preceding the date of the grant. Termination of employment may, in certain circumstances, result in forfeiture of the options, unless otherwise determined by the Committee.

To date, four categories of options have been granted under the Plan. The exercise of the options in three of these four categories is subject to the attainment of certain financial targets of the Company. In two of these categories the financial targets have been attained. All of the options have a maximum exercise period of ten years. The maximum number of Lifeco common shares that may be issued under the Plan is currently 52,600,000.

17. Stock Based Compensation (cont'd)

The following table summarizes the status of, and changes in, options outstanding and the weighted-average exercise price:

	2008		2007	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
Outstanding, beginning of year	**10,618,774**	**$ 21.11**	11,090,332	$ 18.23
Granted	**2,690,000**	**31.27**	1,153,000	37.02
Exercised	**(1,251,496)**	**13.27**	(1,491,358)	11.44
Forfeited	**(67,624)**	**29.84**	(133,200)	27.95
Outstanding, end of year	**11,989,654**	**$ 24.16**	10,618,774	$ 21.11
Options exercisable at end of year	**7,240,974**	**$ 18.95**	7,726,974	$ 17.36

The weighted average fair value of options granted during 2008 was $3.23 per option ($7.43 per option granted during 2007). The fair value of each option was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions used for those options granted in 2008 and 2007 respectively: dividend yield 3.73% (2.86%), expected volatility 13.84% (19.24%), risk-free interest rate 3.32% (4.04%), and expected life of 7 years (8 years).

In accordance with the fair value based method of accounting, compensation expense of $6 after-tax in 2008 ($6 in 2007) has been recognized in the Summaries of Consolidated Operations.

The following table summarizes information on the ranges of exercise prices including weighted-average remaining contractual life at December 31, 2008:

	Outstanding			Exercisable		
Exercise price ranges	Options	Weighted-average remaining contractual life	Weighted-average exercise price	Options	Weighted-average exercise price	Expiry
$13.63	93,250	0.24	13.63	93,250	13.63	2009
$11.14 – $13.22	2,794,472	1.55	13.11	2,794,472	13.11	2010
$17.14	624,632	3.92	17.14	624,632	17.14	2011
$19.42	2,032,800	4.52	19.42	1,971,200	19.42	2013
$24.36 – $26.00	569,000	5.34	25.23	507,600	25.22	2014
$29.84	2,052,500	6.95	29.84	1,204,500	29.84	2015
$35.36 – $37.22	1,133,000	8.21	37.02	45,320	37.02	2017
$31.27	2,690,000	9.37	31.27	–	–	2018

18. Pension Plans and Other Post-Retirement Benefits

The Company and its subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company and its subsidiaries also maintain defined contribution pension plans for certain employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average pay. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. The determination of the accrued benefit obligation reflects only pension benefits guaranteed under the terms of the plans. As future salary levels affect the amount of future employee benefits, the projected benefit method prorated on service has been used to determine the accrued benefit obligation. The assets supporting the funded pension plans are held in separate trusteed pension funds and are valued at fair value. The obligations for the unfunded plans are included in other liabilities and are supported by general assets. The recognized current cost of pension benefits is charged to earnings.

The defined contribution pension plans provide pension benefits based on accumulated employee and Company contributions. Company contributions to these plans are a set percentage of employees' annual income and may be subject to certain vesting requirements.

The Company and its subsidiaries also provide post-retirement health, dental and life insurance benefits to eligible employees, advisors and their dependents. Retirees share in the cost of benefits through deductibles, co-insurance and caps on benefits. As the amount of some of the post-retirement benefits other than pensions depend on future salary levels and future cost escalation, the projected benefit method prorated on services has been used to determine the accrued benefit obligation. These post-retirement benefits are not pre-funded and the amount of the obligation for these benefits is included in other liabilities and is supported by general assets. The recognized current cost of post-retirement non-pension benefits is charged to earnings.

Past service costs for pension plans and other post-retirement benefits are amortized over the period in which the economic benefit is realized, usually over the expected average remaining service life of the affected employee/advisor group. Transitional assets and transitional obligations are amortized over the expected average remaining service life of the employee/advisor group. Prior years' cumulative experience gains or losses in excess of the greater of 10% of the beginning of year plan assets and accrued benefit obligation are amortized over the expected average remaining service life of the employee/advisor group.

Subsidiaries of the Company have declared partial windups in respect of certain defined benefit pension plans, the impact of which has not been reflected in the pension plan accounts.

The following tables reflect the financial information on the Company's contributory and non-contributory defined benefit and defined contribution plans at December 31, 2008 and 2007.

(a) Plan Assets, Benefit Obligation and Funded Status

	Defined benefit pension plans		Other post-retirement benefits	
	2008	2007	2008	2007
Change in Plan Assets				
Fair value of assets, beginning of year	$ 2,870	$ 2,918	$ –	$ –
Employee contributions	15	13	–	–
Employer contributions	36	24	15	15
Return on plan assets	(383)	91	–	–
Benefits paid	(131)	(125)	(15)	(15)
Acquisitions	–	2	–	–
Foreign exchange rate changes	3	(53)	–	–
Fair value of assets, end of year	$ 2,410	$ 2,870	$ –	$ –
Change in Accrued Benefit Obligation				
Accrued benefit obligation, beginning of year	$ 2,464	$ 2,625	$ 350	$ 368
Reclassification of liability	–	13	–	–
Employer current service cost	52	62	1	2
Employee contributions	15	13	–	–
Interest on accrued benefit obligation	141	130	19	18
Actuarial (gains) losses	(331)	(190)	(60)	(23)
Benefits paid	(131)	(125)	(15)	(15)
Past service cost	(1)	(6)	–	–
Acquisitions	–	6	–	–
Foreign exchange rate changes	3	(64)	–	–
Accrued benefit obligation, end of year	$ 2,212	$ 2,464	$ 295	$ 350
Net funded status	$ 198	$ 406	$ (295)	$ (350)
Employer contributions after measurement date	7	2	1	1
Unamortized past service costs	(132)	(143)	(42)	(48)
Unamortized net (losses) gains	176	(65)	(30)	32
Unamortized transitional obligation	2	3	–	–
Valuation allowance	(73)	(56)	–	–
Accrued benefit asset (liability)	$ 178	$ 147	$ (366)	$ (365)
Recorded in:				
Other assets	$ 258	$ 220	$ –	$ –
Other liabilities	(80)	(73)	(366)	(365)
Accrued benefit asset (liability)	$ 178	$ 147	$ (366)	$ (365)
Plans with accrued benefit obligations in excess of plan assets [1]:				
Plans with plan assets				
Fair value of plan assets	$ 289	$ 311		
Accrued benefit obligation	(375)	(395)		
Plan deficit	$ (86)	$ (84)		
Plans without plan assets				
Accrued benefit obligation – Plan deficit	$ (119)	$ (141)	$ (295)	$ (350)

(1) The above plans' assets and accrued benefit obligations are disclosed separately as the accrued benefit obligations exceed the fair value of the plans' assets. These amounts have been included in previously aggregated results.

18. Pension Plans and Other Post-Retirement Benefits (cont'd)

(b) Benefit Expense and Cash Payments

	All pension plans		Other post-retirement benefits	
	2008	2007	2008	2007
Costs Recognized				
Amounts arising from events in the period				
Defined benefit service cost	$ 67	$ 75	$ 1	$ 2
Defined contribution service cost	3	1	–	–
Employee contributions	(15)	(13)	–	–
Employer service cost	55	63	1	2
Past service cost	(1)	(6)	–	–
Interest cost on accrued benefit obligation	141	130	19	18
Actual return on plan assets	383	(91)	–	–
Actuarial (gain) loss on accrued benefit obligation	(331)	(190)	(60)	(23)
Cost incurred	247	(94)	(40)	(3)
Adjustments to reflect costs recognized				
Difference between actual and expected return on plan assets	(565)	(96)	–	–
Difference between actuarial gains (losses) arising during the period and actuarial gains (losses) amortized	324	192	62	27
Amortization of transitional obligations	1	1	–	–
Difference between past service costs arising in period and past service costs amortized	(11)	(6)	(6)	(6)
Increase (decrease) in valuation allowance	17	–	–	–
Net benefit cost recognized for the period	$ 13	$ (3)	$ 16	$ 18
Cash payments				
Contributions – Funded defined benefit plans	$ 34	$ 14	$ –	$ –
– Funded defined contribution plans	3	1	–	–
Benefits paid for unfunded plans	7	6	15	15
Total cash payment	$ 44	$ 21	$ 15	$ 15

(c) Measurement and Valuation

Measurement date is November 30. The dates of the actuarial valuations for funding purposes for the funded defined benefit pension plans (weighted by accrued benefit obligation) are:

Most recent valuation	% of plans	Next required valuation	% of plans
December 31, 2005	25%	December 31, 2008	31%
December 31, 2006	34%	December 31, 2009	34%
April 1, 2007	5%	April 1, 2010	6%
December 31, 2007	36%	December 31, 2010	29%

The fair value of assets is used to determine the expected return on assets.

(d) Asset Allocation by Major Category Weighted by Plan Assets

	Defined benefit pension plans	
	2008	2007
Equity securities	42%	51%
Debt securities	42%	38%
Real estate	5%	5%
Cash and cash equivalents	11%	6%
	100%	100%

No plan assets are directly invested in the Company's or related parties' securities. Nominal amounts may be invested in the Company's or related parties' securities through investment in pooled funds.

(e) Significant Weighted Average Assumptions

	Defined benefit pension plans		Other post-retirement benefits	
	2008	2007	2008	2007
To determine benefit cost:				
Discount rate	5.8%	5.0%	5.7%	5.0%
Expected long-term rate of return on plan assets	6.4%	6.6%	–	–
Rate of compensation increase	4.3%	4.2%	4.2%	4.2%
To determine accrued benefit obligation:				
Discount rate	6.6%	5.8%	7.1%	5.7%
Rate of compensation increase	4.1%	4.3%	3.9%	4.2%
Health care trend rates:				
Initial health care trend rate			7.1%	6.5%
Ultimate health care trend rate			5.0%	4.7%
Year ultimate trend rate is reached			2012	2012

(f) Impact of Changes to Assumed Health Care Rates – Other Post-Retirement Benefits

	1% increase		1% decrease	
	2008	2007	2008	2007
Impact on accrued benefit obligation	$ 26	$ 37	$ (22)	$ (31)
Impact on service and interest cost	$ 2	$ 2	$ (2)	$ (2)

19. Accumulated Other Comprehensive Income (Loss)

	2008					
	Unrealized foreign exchange gains (losses) on translation of foreign operations	Unrealized gains (losses) on available-for-sale assets	Unrealized gains (losses) on cash flow hedges	Total	Participating account	Shareholder
Balance, beginning of year	$ (743)	$ 145	$ 1	$ (597)	$ (21)	$ (576)
Other comprehensive income (loss)	138	(112)	–	26	25	1
Income tax	(1)	31	–	30	1	29
	137	(81)	–	56	26	30
Balance, end of year	$ (606)	$ 64	$ 1	$ (541)	$ 5	$ (546)

	2007					
	Unrealized foreign exchange gains (losses) on translation of foreign operations	Unrealized gains (losses) on available-for-sale assets	Unrealized gains (losses) on cash flow hedges	Total	Participating account	Shareholder
Balance, beginning of year	$ (183)	$ –	$ –	$ (183)	$ (16)	$ (167)
Opening transition adjustment	–	323	(1)	322	19	303
Income tax	–	(90)	–	(90)	(6)	(84)
	–	233	(1)	232	13	219
Other comprehensive income (loss)	(560)	(118)	2	(676)	(22)	(654)
Income tax	–	30	–	30	4	26
	(560)	(88)	2	(646)	(18)	(628)
Balance, end of year	$ (743)	$ 145	$ 1	$ (597)	$ (21)	$ (576)

20. Related Party Transactions

Reinsurance Transactions

During 2007, GWL&A, an affiliated company, reinsured on a co-insurance with funds withheld basis, certain stop loss and excess of loss insurance business to a subsidiary of LRG, a wholly-owned subsidiary of London Life. In 2008, for the Summaries of Consolidated Operations, this transaction resulted in an increase in premiums of $84 ($363 in 2007), an increase in policyholder benefits of $82 ($324 in 2007) and a decrease in the change in actuarial liabilities of $6 (an increase of $9 in 2007). This transaction was recaptured on March 31, 2008.

During 2005, Great-West Life & Annuity Insurance Company of South Carolina (GWSC), a subsidiary of GWL&A assumed on a coinsurance basis with funds withheld, certain of the Canada Life's U.S. term life reinsurance business. During 2007, an additional amount of U.S. term life reinsurance business was retroceded by Canada Life to GWSC. In 2008, for the Summaries of Consolidated Operations, this transaction resulted in a reduction of premium income of $156 ($176 in 2007) policyholder benefits of $98 ($78 in 2007), change in actuarial liabilities of $33 ($50 in 2007) and commissions of $34 ($31 in 2007). This transaction was at market terms and conditions.

Effective June 1, 2007, Canada Life recaptured all of the U.S. life and annuity business that had been ceded to GWL&A, in 2003. For 2007, this recapture transaction resulted in an increase in acquired premiums with a corresponding change in actuarial liabilities on the Summaries of Consolidated Operations of $2,055 (U.S. $1,868). For the Consolidated Balance Sheets, the transaction resulted in an increase in invested assets of $1,578 (U.S. $1,594), an increase in other assets of $24 (U.S. $25), an increase in policyholder liabilities of $1,946 (U.S. $1,966) and a decrease in funds held under reinsurance contracts of $344 (U.S. $347).

Other Related Party Transactions

In the normal course of business, the Company provided insurance benefits to other companies within the Power Financial Corporation group of companies. In all cases, transactions were at market terms and conditions.

On July 31, 2008, the Company issued $2.0 billion of 7.127% debentures to Lifeco. The Company made a corresponding investment of $2.0 billion in preferred shares of a wholly-owned subsidiary of Lifeco. The Company also issued $1.2 billion of 5.75% debentures to Lifeco in 2003. The Company made a corresponding investment of $1.2 billion in preferred shares of a wholly-owned subsidiary of Lifeco. The Company has legally enforceable rights to settle these financial instruments on a net basis, and the Company intends to exercise these rights. Accordingly the investments and debentures will be offset in the consolidated financial statements of the Company.

During 2008, the Company provided and received from IGM certain administrative services. The Company also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. London Life provided distribution services to IGM. All services were provided on terms and conditions at least as favourable as market terms and conditions.

At December 31, 2008 the Company held $30 ($13 in 2007) of debentures issued by IGM.

During 2008, the Company and segregated funds maintained by the Company purchased residential mortgages of $144 from IGM ($154 in 2007). The Company sold residential mortgages of $3 ($4 in 2007) to segregated funds maintained by the Company and $66 ($98 in 2007) to segregated funds maintained by London Life. All transactions were at market terms and conditions.

During the year, GWL&A provided certain administrative services to the Company. The expense to the Company for these services was $5 ($5 in 2007).

The Company has 6.74% Debentures due to Lifeco, its parent, which have an outstanding balance of $200 ($200 in 2007). Financing charges of $13 is included in the Summaries of Consolidated Operations ($13 in 2007).

21. Income Taxes

(a) Future income taxes consist of the following taxable temporary differences on:

	2008	2007
Policy liabilities	$ 726	$ 201
Portfolio investments	(762)	(25)
Other	(176)	(246)
Future income taxes receivable (payable)	$ (212)	$ (70)
Recorded in:		
Other assets	$ 92	$ 186
Other liabilities	(304)	(256)
	$ (212)	$ (70)

(b) The Company's effective income tax rate is derived as follows:

	2008		2007	
Combined basic Canadian federal and provincial tax rate	$ 816	32.5%	$ 782	35.0%
Increase (decrease) in the income tax rate resulting from:				
Non-taxable investment income	(135)	(5.4)	(160)	(7.1)
Lower effective tax rates on income not subject to tax in Canada	(165)	(6.6)	(154)	(6.9)
Miscellaneous	27	1.1	(37)	(1.7)
Impact of rate changes on future income taxes	–	–	19	0.9
Effective income tax rate applicable to current year	$ 543	21.6%	$ 450	20.2%

At December 31, 2008, the Company had tax loss carryforwards, totalling $2,619 ($1,888 in 2007). Of this amount, $36 expire between 2009 and 2028, while $2,583 have no expiry date. The future tax benefit of these tax loss carryforwards has been recognized, to the extent that they are more likely than not to be realized, in the amount of $654 ($454 in 2007) in future tax assets. The Company will realize this benefit in future years through a reduction in current income taxes payable.

22. Derivative Financial Instruments

In the normal course of managing exposure to fluctuations in interest and foreign exchange rates, and to market risks, the Company is an end user of various derivative financial instruments. It is the Company's policy to transact in derivatives only with the most creditworthy financial intermediaries. Note 4 illustrates the credit quality of the Company's exposure to counterparties.

(a) The following table summarizes the Company's derivative portfolio and related credit exposure:

	2008				
	Notional amount	Maximum credit risk*	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Futures – long	$ 119	$ –	$ –	$ –	$ –
Futures – short	49	–	–	–	–
Swaps	2,029	270	13	283	51
Options purchased	308	54	5	59	12
	2,505	324	18	342	63
Foreign exchange contracts					
Forward contracts	140	2	1	3	1
Cross-currency swaps	5,129	212	347	559	110
	5,269	214	348	562	111
Other derivative contracts					
Equity contracts	89	1	5	6	1
Credit default swaps	67	–	–	–	2
	156	1	5	6	3
	$ 7,930	$ 539	$ 371	$ 910	$ 177

* Maximum credit risk does not include collateral paid of $25.

22. Derivative Financial Instruments (cont'd)

	2007				
	Notional amount	Maximum credit risk*	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Futures – long	$ 160	$ –	$ –	$ –	$ –
Futures – short	47	–	–	–	–
Interest rate swaps	1,565	127	7	134	37
Options purchased	536	38	8	46	9
	2,308	165	15	180	46
Foreign exchange contracts					
Forward contracts	1,486	8	15	23	5
Cross-currency swaps	4,488	761	304	1,065	207
	5,974	769	319	1,088	212
Other derivative contracts					
Equity contracts	131	–	7	7	2
Credit default swaps	55	–	–	–	1
	186	–	7	7	3
	$ 8,468	$ 934	$ 341	$ 1,275	$ 261

* Maximum credit risk does not include a reduction for collateral received of $49.

(b) The following table provides the notional amount, term to maturity and estimated fair value of the Company's derivative portfolio by category:

	2008				
	Notional amount				
	1 year or less	1–5 years	Over 5 years	Total	Total estimated market value
Derivatives not designated as accounting hedges					
Interest rate contracts					
Futures – long	$ 119	$ –	$ –	$ 119	$ –
Futures – short	39	–	–	39	–
Swaps	709	687	633	2,029	234
Options purchased	–	–	308	308	54
	867	687	941	2,495	288
Foreign exchange contracts					
Forward contracts	140	–	–	140	2
Cross-currency swaps	234	898	3,997	5,129	(511)
	374	898	3,997	5,269	(509)
Other derivative contracts					
Equity contracts	61	17	11	89	(18)
Credit default swaps	67	–	–	67	(2)
	128	17	11	156	(20)
	1,369	1,602	4,949	7,920	(241)
Fair value hedges					
Interest rate contracts					
Futures – short	10	–	–	10	–
Total	$ 1,379	$ 1,602	$ 4,949	$ 7,930	$ (241)

	2007				
	Notional amount				Total estimated market value
	1 year or less	1–5 years	Over 5 years	Total	
Derivatives not designated as accounting hedges					
Interest rate contracts					
Futures – long	$ 160	$ –	$ –	$ 160	$ –
Futures – short	47	–	–	47	–
Interest rate swaps	797	426	342	1,565	123
Options purchased	–	–	536	536	38
	1,004	426	878	2,308	161
Foreign exchange contracts					
Forward contracts	38	–	–	38	–
Cross-currency swaps	123	934	3,421	4,478	739
	161	934	3,421	4,516	739
Other derivative contracts					
Equity contracts	95	15	21	131	(36)
Credit default swaps	–	55	–	55	–
	95	70	21	186	(36)
	1,260	1,430	4,320	7,010	864
Cash flow hedges					
Foreign exchange contracts					
Cross-currency swaps	10	–	–	10	–
Net investment hedges					
Foreign exchange contracts					
Forward contracts	1,448	–	–	1,448	(18)
Total	$ 2,718	$ 1,430	$ 4,320	$ 8,468	$ 846

(c) ***Interest Rate Contracts***

Interest rate swaps, futures and options are used as part of a portfolio of assets to manage interest rate risk associated with actuarial liabilities. Interest rate swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based. Written call options are used with interest rate swaps to effectively convert convertible, fixed rate bonds to non-convertible variable rate securities as part of the Company's overall asset/liability matching program. The written call option hedges the Company's exposure to the convertibility feature on the bonds.

Foreign Exchange Contracts

Cross-currency swaps are used in combination with other investments to manage foreign currency risk associated with actuarial liabilities. Under these swaps principal amounts and fixed or floating interest payments may be exchanged in different currencies. The Company also enters into certain foreign exchange forward contracts to hedge certain product liabilities and to hedge a portion of the translation of the net investment in its foreign operations.

Other Derivative Contracts

Equity index swaps, futures and options are used to hedge certain product liabilities. Equity index swaps are also used as substitutes for cash instruments and are used to hedge the market risk associated with certain fee income.

The Company uses credit derivatives to manage its credit exposures and for risk diversification in its investment portfolio.

23. Reinsurance Transactions

(a) On February 14, 2008, the Company's indirect wholly-owned Irish reinsurance subsidiary, Canada Life International Re Limited, signed an agreement with Standard Life Assurance Limited, a U.K. based provider of life, pension and investment products, to assume by way of indemnity reinsurance, a large block of U.K. payout annuities. The reinsurance transaction increased premium income, paid or credited to policyholders, funds held by ceding insurers and policy liabilities by $12.5 billion.

(b) During 2008, the Company's indirect wholly-owned U.K. subsidiary, Canada Life Limited, entered into two agreements with two financial institutions to provide long-term mortality exposure management on an in-force block of payout annuity business representing $2.8 billion of actuarial liabilities. These agreements exchange variable annuitant payments for a schedule of fixed payments. One of the agreements has no end date while the other matures in 40 years.

(c) During 2007, Great-West Life and London Life recaptured the remaining 50% of a reinsurance agreement on certain blocks of group life and long-term disability business. The recaptured premiums of $1,574 associated with the transaction have been recorded in the Summaries of Consolidated Operations as an increase to premium income with a corresponding increase to the change in actuarial liabilities and provision for claims. For the Consolidated Balance Sheets, this transaction resulted in a reduction of $1,831 to funds held under reinsurance contracts with a corresponding increase in policyholder liabilities.

24. Contingent Liabilities

The Company and its subsidiaries are from time to time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. It is not expected that any of the existing legal actions will have a material adverse effect on the consolidated financial position of the Company.

In addition, there are class proceedings in Ontario regarding the participation of the London Life and Great-West Life participating accounts in the financing of the acquisition of LIG in 1997 by Great-West Life. It is difficult to predict the outcome of these proceedings with certainty. However, based on information presently known, these proceedings are not expected to have a material adverse effect on the consolidated financial position of the Company.

Subsidiaries of the Company have declared partial windups in respect of certain Ontario defined benefit pension plans which will not likely be completed for some time. The partial windups could involve the distribution of the amount of actuarial surplus, if any, attributable to the wound up portion of the plans. However, many issues remain unclear, including the basis of surplus measurement and entitlement, and the method by which any surplus distribution would be implemented. In addition to the regulatory proceedings involving these partial windups, related proposed class action proceedings have been commenced in Ontario related to certain of the partial windups. In the third quarter, 2007 the Company and a subsidiary established provisions for certain Canadian retirement plans in the amount of $97 after-tax. Actual results could differ from these estimates.

A subsidiary of the Company is involved in an ongoing arbitration relating to the interpretation of certain provisions of reinsurance treaties. In addition, certain reinsurance client loss statements relating to other reinsurance treaties are in dispute and may become subject to arbitration or other legal action in the future. While there is retrocession coverage in place for these other treaties, payment of amounts due under these retrocession treaties is contingent upon collection by the retrocessionaire under a separate financial arrangement with another party. We understand that the provisions of this separate financial arrangement are also in dispute. The Company's subsidiary has established an actuarial provision for these two matters. Based on information presently known, it is difficult to predict the outcome of these matters with certainty. These matters are not expected to have a material adverse effect on the consolidated financial position of the Company.

Legal proceedings have been commenced against a private equity vehicle in which the Company and one of its subsidiaries, Canada Life, have an ownership interest. An affiliate of the Company, Putnam Investments, LLC has agreed to indemnify the Company and its subsidiary, to a specified maximum amount, in the event an unfavourable outcome in these proceedings results in a loss to the Company or its subsidiary. These proceedings are in their early stages, and it is difficult to predict the outcome with certainty. Based on information presently known, it is expected that the amount of the indemnification would be sufficient in the event of an unfavourable outcome and these proceedings are not expected to have a material adverse effect on the consolidated financial position of the Company.

25. Commitments

(a) Syndicated Letters of Credit

Clients residing in the United States are required pursuant to their insurance laws to obtain letters of credit issued on LRG's behalf from approved banks in order to further secure LRG's obligations under certain reinsurance contracts.

LRG has a syndicated letter of credit facility providing U.S. $650 in letters of credit capacity. The facility was arranged in 2005 for a five year term expiring November 15, 2010. Under the terms and conditions of the facility, collateralization may be required if a default under the letter of credit agreement occurs. LRG has issued U.S. $622 in letters of credit under the facility as at December 31, 2008 (U.S. $591 as at December 31, 2007).

In addition, LRG has other bilateral letter of credit facilities totalling U.S. $18 (2007 – U.S. $18). LRG has issued U.S. $7 in letters of credit under these facilities as at December 31, 2008.

(b) Other Letters of Credit

Canada Life issues letters of credit in the normal course of business. Letters of credit in the amount of $1 were outstanding at December 31, 2008 ($1 at December 31, 2007), none of which have been drawn upon at that date.

(c) Lease Obligations

The Company enters into operating leases for office space and certain equipment used in the normal course of operations. Lease payments are charged to operations over the period of use. The future minimum lease payments in aggregate and by year are as follows:

	2009	2010	2011	2012	2013	2014 and thereafter	Total
Future lease payments	$ 65	53	44	36	25	84	$ 307

26. Segmented Information

The major reportable segments are the participating and shareholder operations of the Company. The Company operates through Great-West Life and its wholly owned subsidiaries LIG and CLFC.

The major business units within the segments are:

Individual Insurance & Investment Products	– life insurance and disability insurance products for individual clients, and accumulation and payout annuity products for both group and individual clients.
Group Insurance	– life, health and disability insurance products for group clients.
Europe/Reinsurance	– life, health and disability insurance products for individual and group clients and accumulation and payout annuity products in the United Kingdom, Ireland and Germany, as well as life, property and casualty, accident and health and annuity.
Corporate	– business activities and operations that are not associated with the above business units.

(a) Consolidated Operations

	2008						
	Shareholder					Participating	
	Individual insurance & investment products	Group insurance	Europe/ Reinsurance	Corporate	Total	Total	Total company
Income:							
Premium income	$ 2,061	$ 4,053	$ 18,971	$ 83	$ 25,168	$ 2,257	$ 27,425
Net investment income							
Regular net investment income	717	280	2,114	258	3,369	1,433	4,802
Changes in fair value on held for trading assets	(657)	(117)	(1,579)	(120)	(2,473)	(1,583)	(4,056)
Total net investment income	60	163	535	138	896	(150)	746
Fee and other income	841	142	647	55	1,685	–	1,685
Total income	2,962	4,358	20,153	276	27,749	2,107	29,856
Benefits and expenses:							
Paid or credited to policyholders	1,262	3,031	18,545	24	22,862	1,599	24,461
Other	801	776	708	122	2,407	458	2,865
Amortization of finite life intangible assets	–	–	4	14	18	–	18
Net operating income before income taxes	899	551	896	116	2,462	50	2,512
Income taxes	226	160	159	7	552	(9)	543
Net income before non-controlling interests	673	391	737	109	1,910	59	1,969
Non-controlling interests	–	–	–	7	7	–	7
Net income	673	391	737	102	1,903	59	1,962
Net income – participating policyholder	–	–	–	–	–	59	59
Net income – shareholders	673	391	737	102	1,903	–	1,903
Perpetual preferred share dividends	–	–	–	9	9	–	9
Net income – common shareholder	$ 673	$ 391	$ 737	$ 93	$ 1,894	$ –	$ 1,894

26. Segmented Information (cont'd)

	2007						
	Shareholder					Participating	
	Individual insurance & investment products	Group insurance	Europe/ Reinsurance	Corporate	Total	Total	Total company
Income:							
Premium income	$ 2,065	$ 4,915	$ 7,987	$ 1,146	$ 16,113	$ 3,108	$ 19,221
Net investment income							
Regular net investment income	916	311	1,527	189	2,943	1,378	4,321
Changes in fair value on held for trading assets	(288)	(59)	(582)	17	(912)	(103)	(1,015)
Total net investment income	628	252	945	206	2,031	1,275	3,306
Fee and other income	851	131	671	51	1,704	1	1,705
Total income	3,544	5,298	9,603	1,403	19,848	4,384	24,232
Benefits and expenses:							
Paid or credited to policyholders	1,851	4,006	8,163	1,163	15,183	3,799	18,982
Other	864	742	711	281	2,598	401	2,999
Amortization of finite life intangible assets	–	–	4	14	18	–	18
Net operating income before income taxes	829	550	725	(55)	2,049	184	2,233
Income taxes	192	166	126	(89)	395	55	450
Net income before non-controlling interests	637	384	599	34	1,654	129	1,783
Non-controlling interests	–	–	–	7	7	–	7
Net income	637	384	599	27	1,647	129	1,776
Net income – participating policyholder	–	–	–	–	–	129	129
Net income – shareholders	637	384	599	27	1,647	–	1,647
Perpetual preferred share dividends	–	–	–	11	11	–	11
Net income – common shareholder	$ 637	$ 384	$ 599	$ 16	$ 1,636	$ –	$ 1,636

(b) Consolidated Total Assets:

	2008			2007		
	Shareholder	Participating account	Total	Shareholder	Participating account	Total
Assets						
Invested assets	**$ 52,679**	**$ 26,221**	**$ 78,900**	$ 53,458	$ 26,624	$ 80,082
Goodwill and intangible assets	**6,689**	**–**	**6,689**	6,688	–	6,688
Other	**14,178**	**695**	**14,873**	4,359	740	5,099
Total assets	**$ 73,546**	**$ 26,916**	**$ 100,462**	$ 64,505	$ 27,364	$ 91,869
Segregated funds net assets			**59,924**			71,614
Total general fund and segregated fund assets under administration			**$ 160,386**			$ 163,483

(c) Geographic Distribution of Total Assets and Income:

	2008		2007	
	Income	Assets	Income	Assets
Canada	**$ 9,431**	**$ 51,944**	$ 12,071	$ 52,490
International	**20,425**	**48,518**	12,161	39,379
	$ 29,856	**$ 100,462**	$ 24,232	$ 91,869

AUDITORS' REPORT

To the Policyholders and Shareholders
The Great-West Life Assurance Company

We have audited the consolidated balance sheets of The Great-West Life Assurance Company and the statements of segregated funds consolidated net assets as at December 31, 2008 and 2007 and the summaries of consolidated operations, the summaries of consolidated comprehensive income, the consolidated statements of surplus, the consolidated statements of cash flows and the segregated funds consolidated statements of changes in net assets for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company and its segregated funds as at December 31, 2008 and 2007 and the results of its operations and its cash flows and the changes in net assets of its segregated funds for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Winnipeg, Manitoba
February 12, 2009

APPOINTED ACTUARY'S REPORT

To the Policyholders, Shareholders and Directors of The Great-West Life Assurance Company

I have valued the policy liabilities of The Great-West Life Assurance Company for its consolidated balance sheet at December 31, 2008 and their change in its summary of consolidated operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the consolidated financial statements fairly present the results of the valuation.

A. Jamal

Arshil Jamal
Fellow, Canadian Institute of Actuaries

Winnipeg, Manitoba
February 12, 2009

PARTICIPATING POLICYHOLDER DIVIDEND POLICY

This policyholder dividend policy has been established by the Board of Directors and is subject to change from time to time. It applies to participating insurance policies.

Earnings are generated in the participating account when the experience in the participating account for factors such as investment income, asset defaults, mortality, lapses, expenses and taxes is collectively more favourable than the assumptions for these factors used when establishing the guaranteed values associated with participating insurance policies. Great-West Life may distribute a portion of the earnings as declared by the Board of Directors in accordance with this policyholder dividend policy.

Participating insurance policies are eligible for a periodic policyholder dividend. The amount available for distribution from the participating account as policyholder dividends is determined at least annually following a review of the actual and expected experience of the participating account, taking into account significant changes in factors such as investment income, asset defaults, mortality, lapses, expenses and taxes. The amount available for distribution in any year will vary upwards or downwards depending on the actual and expected experience. The amount available is also influenced by considerations such as: the need to retain earnings as surplus to, among other purposes, ensure financial strength and stability, finance new business growth, provide for transitions during periods of major change and smooth fluctuations in experience; practical considerations and limits; legal requirements; and prevailing industry practices.

The amount available for distribution as policyholder dividends is divided among classes of policyholders by setting the policyholder dividend scale. Great-West Life follows the contribution principle when setting the policyholder dividend scale. This means the amount available for distribution as policyholder dividends is divided among classes of policyholders over the long term in proportion to their contribution to earnings. A contribution to earnings will be made from a particular class of policies to the extent that the experience for that particular class is different from the assumptions that were used when establishing the guaranteed values for that class.

When applying the contribution principle, attention is paid to ensuring reasonable equity is achieved between classes of policyholders and between generations of policyholders, taking into account practical considerations and limits, legal requirements and prevailing industry practices. For certain blocks of policies, the policyholder dividend scale may be determined using methods which are designed to approximate the contribution to earnings of those blocks.

Termination dividends are not payable under any participating insurance policies issued by Great-West Life.

The policyholder dividends are credited according to the terms of each policy.

Prior to the declaration of policyholder dividends by the Board, the actuary of the Company will confirm that: the proposed policyholder dividends are in accordance with this policyholder dividend policy and in compliance with applicable legislative and regulatory requirements; and applicable professional practice standards have been followed.

As permitted by the Insurance Companies Act, Great-West Life may distribute to the shareholder account a percentage of the amount distributed to policyholders in respect of a financial year.

Policy illustrations will reflect changes to the policyholder dividend scale as soon as practical.

Approved by The Great-West Life Assurance Company Board of Directors

October 28, 2004

Effective December 31, 2004

SOURCES OF EARNINGS

The following is provided in accordance with the OSFI guideline requiring Sources of Earnings (SOE) disclosure. SOE is not a Canadian generally accepted accounting principles (GAAP) measure. There is no standard SOE methodology. The calculation of SOE is dependent on, and sensitive to, the methodology, estimates and assumptions used.

SOE identifies various sources of Canadian GAAP net income. It provides an analysis of the difference between actual net income and expected net income based on assumptions made at the beginning of the reporting period. The terminology used in the discussion of sources of earnings is described below:

Expected Profit on In-Force Business

This component represents the portion of the consolidated net income on business in-force at the start of the reporting period that was expected to be realized based on the achievement of the best-estimate assumptions. It includes releases of provisions for adverse deviations, expected net earnings on deposits, and expected net management fees.

Impact of New Business

This component represents the point-of-sale impact on net income of writing new business during the reporting period. This is the difference between the premium received and the sum of the expenses incurred as a result of the sale and the new liabilities established at the point of sale.

Experience Gains and Losses

This component represents gains and losses that are due to differences between the actual experience during the reporting period and the best-estimate assumptions at the start of the reporting period.

Management Actions and Changes in Assumptions

This component represents the impact on net income resulting from management actions, changes in actuarial assumptions or methodology, changes in margins for adverse deviations, and correction of errors.

Other

This component represents the amounts not included in any other line of the sources of earnings.

Earnings on Surplus

This component represents the earnings on the Company's surplus funds.

Great-West Life's sources of earnings are shown below for 2008 and 2007. The 2007 amounts reflect the reclassification of liabilities between tax liabilities and actuarial liabilities and the reclassification of some experience gains in to expected profit to conform to the presentation adopted in the current year.

(in $ millions)	Shareholder net income				
For year to date at December 31, 2008	**Group insurance**	**Individual insurance & investment products**	**Europe/ Reinsurance**	**Corporate**	**Total**
Expected profit on in-force business	$ 503	$ 579	$ 537	$ 22	$ 1,641
Impact of new business	–	(8)	18	–	10
Experience gains and losses	(8)	164	447	3	606
Management actions and changes in assumptions	49	164	(239)	16	(10)
Other	–	–	–	–	–
Earnings on surplus	7	–	133	75	215
Net income before tax	**551**	**899**	**896**	**116**	**2,462**
Taxes	(160)	(226)	(159)	(7)	(552)
Net income before non-controlling interests	**391**	**673**	**737**	**109**	**1,910**
Non-controlling interests	–	–	–	(7)	(7)
Net income – shareholders	391	673	737	102	1,903
Perpetual preferred share dividends	–	–	–	(9)	(9)
Net income – common shareholder before adjustments	**391**	**673**	**737**	**93**	**1,894**
Adjustments after tax	–	–	–	–	–
Net income – common shareholders	**$ 391**	**$ 673**	**$ 737**	**$ 93**	**$ 1,894**

(in $ millions)	Shareholder net income				
For year to date at December 31, 2007	Group insurance	Individual insurance & investment products	Europe/ Reinsurance	Corporate	Total
Expected profit on in-force business	$ 444	$ 529	$ 401	$ 23	$ 1,397
Impact of new business	–	(34)	36	–	2
Experience gains and losses	46	241	354	(137)	504
Management actions and changes in assumptions	48	93	(197)	7	(49)
Other	–	–	–	–	–
Earnings on surplus	12	–	131	52	195
Net income before tax	**550**	**829**	**725**	**(55)**	**2,049**
Taxes	(166)	(192)	(126)	89	(395)
Net income before non-controlling interests	**384**	**637**	**599**	**34**	**1,654**
Non-controlling interests	–	–	–	(7)	(7)
Net income – shareholders	384	637	599	27	1,647
Perpetual preferred share dividends	–	–	–	(11)	(11)
Net income – common shareholder before adjustments	**384**	**637**	**599**	**16**	**1,636**
Adjustments after tax	–	–	–	–	–
Net income – common shareholders	**$ 384**	**$ 637**	**$ 599**	**$ 16**	**$ 1,636**

Analysis of Results

Expected profit on in-force business is the major driver of earnings and accounted for 67% of pre-tax earnings in 2008. The expected profit on in-force business of $1,641 in 2008 was $244 higher than the 2007 level. The increase in expected profit reflected business growth across the company.

New business issued in 2008 led to gains of $10 at issue compared to gains of $2 in 2007. The difference was largely due to a more favourable mix of business and lower volumes of products with strain in Canada in 2008.

Experience gains in 2007 and 2008 were primarily due to favourable mortality, morbidity, and investment experience in Europe and Canada Individual Insurance & Investment Products. The gains in 2008 were more than in 2007 primarily due to favourable mortality experience for the Standard Life Payout Annuity business (reinsurance assumed in 2008).

In 2008 management actions and changes in assumptions contributed $(10) to pre-tax earnings, including $22 due to a reduction in non-actuarial policy liabilities (mainly Canada Group), $9 related to the termination of an aggregate reinsurance agreement, $7 related to the sale of US Healthcare, and $(59) due to valuation assumption changes and management actions for actuarial liabilities. The most significant contributors to valuation assumption changes and management actions for actuarial liabilities were $(203) due to strengthened life annuitant mortality in Europe, $(108) due to strengthened provisions for asset default, $(123) due to strengthened provisions for asset liability matching, $158 due to improved morbidity, $105 due to Canadian Individual life mortality, and $98 due to two annuitant mortality risk transfer agreements.

In 2007 management actions and changes in assumptions contributed $(49) to pre-tax earnings, including $25 related to the reclassification of tax provisions, $(11) related to the recapture of business from CLIRe and $(60) due to valuation assumption changes and management actions for actuarial liabilities. The most significant contributors to valuation assumption changes and management actions for actuarial liabilities were $(146) due to strengthened provisions for asset liability matching, $(88) due to life annuitant mortality strengthening, $70 due to improved life mortality, $57 due to reduced expense and tax provisions, and $51 due to reduced Group waiver and LTD provisions.

Earnings on surplus increased by $20 in 2008 compared to 2007.

SUBSIDIARIES OF THE GREAT-WEST LIFE ASSURANCE COMPANY*

Name	Principal Office Address	Carrying Value ($ millions)	Voting Share Ownership
Gold Circle Insurance Company	Winnipeg, Manitoba	4	100.0%
GWL Investment Management Ltd.	Winnipeg, Manitoba	2	100.0%
GWL Realty Advisors Inc.	Winnipeg, Manitoba	–	100.0%
CGWLL Inc.	Winnipeg, Manitoba	11	100.0%
London Insurance Group Inc.	London, Ontario	3,581	100.0%
Canada Life Financial Corporation	Toronto, Ontario	9,221	100.0%

* The table above depicts the material and certain other subsidiaries of the Company as at December 31, 2008.

FIVE YEAR SUMMARY

(in $ millions except per share amounts)

	2008	2007	2006	2005	2004
At December 31					
Total assets under administration	**$ 162,558**	$ 165,915	$ 165,843	$ 136,158	$ 124,328
For the Year Ended December 31					
Premiums:					
Life insurance, guaranteed annuities and insured health products	**$ 27,425**	$ 19,221	$ 15,288	$ 13,154	$ 12,543
Self-funded premium equivalents (ASO contracts)	**2,410**	2,233	2,145	1,955	1,863
Segregated funds deposits:					
Individual products	**6,932**	8,544	7,959	6,046	5,270
Group products	**3,321**	3,311	3,008	2,682	4,064
Proprietary mutual funds deposits	**708**	835	629	440	260
Total premiums and deposits	**$ 40,796**	$ 34,144	$ 29,029	$ 24,277	$ 24,000
Condensed Summary of Operations					
Income					
Premium income	**$ 27,425**	$ 19,221	$ 15,288	$ 13,154	$ 12,543
Net investment income					
Regular net investment income	**4,802**	4,321	4,534	3,991	3,785
Changes in fair value on held for trading assets	**(4,056)**	(1,015)	–	–	–
Total net investment income	**746**	3,306	4,534	3,991	3,785
Fee and other income	**1,685**	1,705	1,508	1,257	1,084
Total income	**29,856**	24,232	21,330	18,402	17,412
Benefits and Expenses					
Paid or credited to policyholders	**24,461**	18,982	16,456	13,989	13,234
Other	**2,865**	2,999	2,762	2,625	2,621
Amortization of finite life intangible assets	**18**	18	18	18	18
Restructuring costs	**–**	–	–	22	42
Net operating income before income taxes	**2,512**	2,233	2,094	1,748	1,497
Income taxes	**543**	450	385	323	264
Net income before non-controlling interests	**1,969**	1,783	1,709	1,425	1,233
Non-controlling interests	**7**	7	7	7	7
Net income	**1,962**	1,776	1,702	1,418	1,226
Net income – participating account	**59**	129	132	94	107
Net income – shareholders	**1,903**	1,647	1,570	1,324	1,119
Preferred share dividends	**9**	11	11	11	11
Net income – common shareholder	**$ 1,894**	$ 1,636	$ 1,559	$ 1,313	$ 1,108
Earnings per common share	**$ 906.69**	$ 783.48	$ 746.64	$ 632.75	$ 544.90
Book value per common share	**$5,350.00**	$ 4,889.00	$ 4,827.00	$ 4,173.00	$ 3,958.00
Dividends to common shareholder – per share	**$ 465.83**	$ 412.26	$ 237.64	$ 290.00	$ 227.87

DIRECTORS AND OFFICERS
As of December 31, 2008

BOARD OF DIRECTORS

Raymond L. McFeetors [3,4,5,6]
Chairman of the Board of the Company
Vice-Chairman, Power Financial Corporation

Marc A. Bibeau [1,2]
President,
Beauward Shopping Centres Ltd.

Marcel R. Coutu [1]
President and Chief Executive Officer,
Canadian Oil Sands Limited

Orest T. Dackow [3,4]
Corporate Director

André Desmarais, O.C. [3,4,5,6]
Deputy Chairman, President and
Co-Chief Executive Officer,
Power Corporation of Canada
Co-Chairman,
Power Financial Corporation

Paul Desmarais, Jr., O.C. [3,4,5,6]
Chairman and Co-Chief Executive Officer,
Power Corporation of Canada
Co-Chairman,
Power Financial Corporation

H. David Graves [5]
Chairman, President and
Chief Executive Officer, IMRIS Inc.

V. Peter Harder [2]
Senior Policy Advisor,
Fraser Milner Casgrain LLP

Michael L. Hepher [1,5]
Corporate Director

Chaviva M. Hošek [1,2]
President and Chief Executive Officer,
The Canadian Institute for Advanced Research

Daniel Johnson [3,4,5]
Of Counsel to McCarthy Tétrault LLP

Kevin P. Kavanagh, C.M. [2,3,6]
Corporate Director
Chancellor Emeritus, Brandon University

The Right Honourable Donald F. Mazankowski, P.C., O.C., A.O.E. [3,4,6]
Senior Advisor to
Gowling Lafleur Henderson LLP

D. Allen Loney [3,4]
President and Chief Executive Officer
of the Company,
Great-West Lifeco Inc.,
London Life Insurance Company,
Canada Life Financial Corporation,
The Canada Life Assurance Company,
Crown Life Insurance Company

Jerry E.A. Nickerson [1]
Chairman of the Board,
H.B. Nickerson & Sons Limited

David A. Nield [2,3,4,5,6]
Corporate Director

R. Jeffrey Orr [3,4,5,6]
President and Chief Executive Officer,
Power Financial Corporation

Michel Plessis-Bélair, FCA [1]
Vice-Chairman,
Power Corporation of Canada

Philip K. Ryan [1,3,4]
Executive Vice-President and
Chief Financial Officer,
Power Corporation of Canada and
Power Financial Corporation

Guy St-Germain, C.M. [1,3,4]
President, Placements Laugerma Inc.

Dr. Emőke J. E. Szathmáry, C.M., Ph.D. [2,3]
President Emeritus,
University of Manitoba

Murray J. Taylor
Co-President and Chief Executive Officer,
IGM Financial Inc.
President and Chief Executive Officer,
Investors Group Inc.

1 member of the Audit Committee
2 member of the Conduct Review Committee
3 member of the Executive Committee
4 member of the Investment Committee
5 member of the Compensation Committee
6 member of the Governance and Nominating Committee

EXECUTIVE OFFICERS

D. Allen Loney
President and Chief Executive Officer

Paul A. Mahon
President and Chief Operating Officer,
Canada

Andrew D. Brands
Senior Vice-President and
General Counsel, Europe,
Reinsurance and Litigation (Canada)

Elwood C. Haas
Senior Vice-President,
Corporate Resources

Arshil Jamal
Senior Vice-President, Chief
Actuary/Capital Management

Helen R. Kasdorf
Vice-President and
Chief Internal Auditor

William W. Lovatt
Executive Vice-President and
Chief Financial Officer

Peter G. Munro
Executive Vice-President and
Chief Investment Officer

Ronald D. Saull
Executive Vice-President,
Chief Information Officer

Sheila A. Wagar
Senior Vice-President,
General Counsel and Secretary

POLICYHOLDER AND SHAREHOLDER INFORMATION

Head Office

100 Osborne Street North, Winnipeg, Manitoba, Canada R3C 3A5

Stock Exchange

Stock Exchange Listings Symbol: GWL.PR.O

The Preferred Shares Series O are listed on the Toronto Stock Exchange.

Transfer Agent and Registrar

The transfer agent and registrar of Great-West Life is **Computershare Investor Services Inc.**

In Canada, the Non-Cumulative First Preferred Shares, Series O are transferable at the following locations:

9th Floor, 100 University Avenue, Toronto, Ontario, Canada M5J 2Y1

6th Floor, 530 8th Avenue S.W., Calgary, Alberta, Canada T2P 3S8

Dividends

The Preferred Shares Series O – Dividend record dates are usually between the 1st and 4th of January, April, July and October. Dividends are usually paid the last day of January, April, July and October.

Financial Information

For financial information about Great-West Life, please contact the Chief Financial Officer at 204-946-7341.

For copies of the annual or quarterly reports, please contact the Corporate Secretary's Office at 204-946-4388 or visit our website: **www.greatwestlife.com**.

Designed and Produced by **SUTTON** INTEGRATED SOLUTIONS Printed in Canada

THE
Great-West Life
ASSURANCE COMPANY

A member of the Power Financial Corporation group of companies.

E987(08LIFE)-3/09

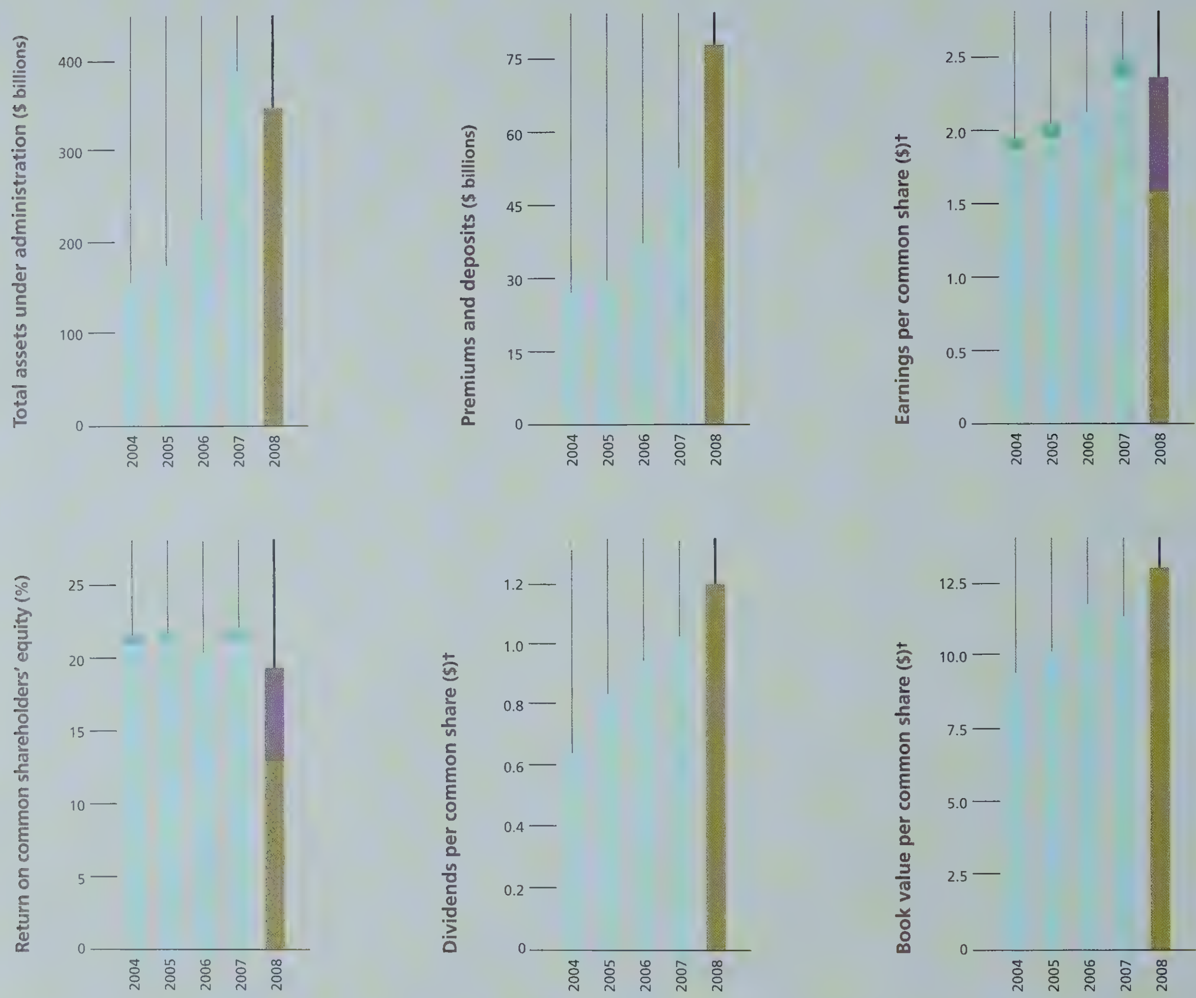
AR90

Continued Strong Performance

GREAT-WEST LIFECO INC.

Annual Report 2008

Financial Highlights: Continued Strong Performance



† Per share computations have been adjusted to reflect the two-for-one subdivision of the Corporation's common shares effective October 6, 2004

Table of Contents

* Readers are referred to the cautionary notes regarding forward-looking information and non-GAAP financial measures on page 6 of this report.

Directors' Report to Shareholders

Great-West Lifeco's 2008 financial results were excellent, given the significant volatility in global credit, equity and foreign exchange markets throughout the year. In addition, the Corporation's financial condition remains very strong.

Earnings attributable to common shareholders before adjustments decreased 4% over 2007 to $2.1 billion. On a per common share basis, earnings before adjustments decreased 5% to $2.303 per common share.

Lifeco's adjusted return on equity (ROE) of 19.0% for the twelve months ended December 31, 2008 continued to rank among the strongest in the financial services sector.

Dividends paid on common shares for the twelve months ended December 31, 2008 were 13% higher than a year ago.

Other measures of Lifeco's performance in 2008 include:

- Premiums and deposits grew 62% over 2007, reflecting a full year contribution from Putnam in the United States, a major payout annuity reinsurance transaction in Europe, and growth in protection products in Canada.
- General fund assets were up 10% from the beginning of 2008, although investment fund assets were down, reflecting lower market values.
- Total assets under administration at December 31, 2008 were $339 billion.

Our financial strength

Over a long period of time our companies have maintained prudent and conservative investment policies and practices with respect to the management of their consolidated assets.

Our sound investment practices, coupled with conservative product underwriting standards and strong risk-averse culture, have proven beneficial for Lifeco and its companies over the long term. The majority of our exposure to segregated fund guarantees is in Canada, and they are towards the conservative end of the spectrum. As a result of these disciplines, our balance sheet is one of the strongest in the industry.

The Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio for Great-West Life and its subsidiaries was 210% at December 31, 2008. This measure of capital strength remains at the upper end of our target operating range.

In 2008, all five rating agencies which rate Great-West Lifeco and its subsidiaries reaffirmed the strong ratings for the Corporation. Great-West Lifeco has an A+ Senior Debt Rating while the rating on its regulated operating subsidiaries is AA Claims Paying Ability.

We have a high quality bond portfolio, with 99% rated investment grade at December 31, 2008.

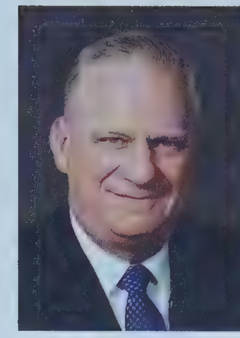
Our 2008 results include an after-tax charge for asset impairment of $100 million related to deterioration in financial markets. To put this in perspective, the aggregate value of these asset impairment charges represents less than eight one-hundredths of one per cent of Great-West Lifeco's $130 billion of consolidated general account assets at December 31, 2008.

In November, Lifeco completed an offering of non-cumulative preferred shares, raising proceeds of $230 million. In December, Lifeco completed a successful $600 million public offering of its common shares, concurrent with a $400 million private placement with Power Financial Corporation. The $1.23 billion aggregate proceeds of the preferred and common share offerings augment Lifeco's capital and liquidity position, and give the Corporation an enhanced capability to take advantage of market opportunities.

Diversified across Canada, the United States and Europe

Lifeco's success is driven by its operating subsidiaries across its three main operating regions: in Canada through Great-West Life, London Life and Canada Life; in the United States through Great-West Life & Annuity and Putnam; and in Europe through Canada Life.

Raymond L. McFeetors
Chairman of the Board



D. Allen Loney
President and CEO

Canada

In Canada, Lifeco's companies maintained a strong market position in our individual and group businesses, despite the troubled financial markets. Our diverse distribution structure, which includes independent as well as exclusive channels, plays a significant role in the strong persistency of our business in difficult times. A focus on expense management was maintained in all parts of the business.

In October 2008 Great-West Life entered into an agreement with Fidelity Investments Canada ULC, whereby Fidelity is transitioning its Canadian group retirement and savings plan recordkeeping business to Great-West Life, representing $2.2 billion in assets under administration at October 22, 2008.

Participating life insurance continued to be an important differentiator in the marketplace, across all brands and distribution channels. Participating life insurance offers consumers important advantages and choice as part of a sound financial security plan.

United States

In the United States, the sale of Great-West Life & Annuity's healthcare insurance business was completed in April, and an after-tax gain of $649 million was recorded.

Despite unfavourable U.S. equity market conditions, the remaining Financial Services businesses maintained their market share and benefited from the diversity of product offerings and distribution channels. This, along with strong expense management, resulted in solid earnings for Great-West Life & Annuity in 2008. With a strong balance sheet and regulatory capital position, Great-West Life & Annuity is well positioned to capitalize on acquisition opportunities.

In 2008 the volatility in equity markets continued to impact asset managers, including Putnam, whose assets under management declined to US$106 billion at December 31. In September Putnam entered into a transaction which transferred its Prime Money Market Fund to Federated Investors Inc. In October, for the benefit of shareholders in its retail money market funds, Putnam announced its participation in the Money Market Guaranty Program introduced by the U.S. Treasury.

Lifeco booked an after-tax impairment charge of $1,353 million as a result of a reduction in the value attributed to the goodwill and intangible assets associated with the 2007 Putnam acquisition.

In November, Putnam announced a broad restructuring of its equity investment unit, consolidating fund offerings and realigning manager incentives to reward top-flight results. Putnam's management team is working to bring to market innovative products that meet the growing needs of today's investors, backed by superior performance over time.

Europe

In Europe – where the Corporation has operations through Canada Life in the United Kingdom, Isle of Man, Ireland and Germany – the challenging markets coupled with a loss of consumer confidence in the market led to lower sales. However, the Corporation maintained solid positions in core markets overall. Prior acquisitions and a continued focus on credit and expense controls provide us with a strong platform for future growth.

In February, Lifeco's Irish reinsurance subsidiary, Canada Life International Re Limited, assumed a large block of U.K. payout annuities from Standard Life by way of indemnity reinsurance. We continue to seek opportunities to expand our position in core European markets.

In reinsurance, we continued to leverage our financial strength, strong risk-averse culture and excellent client relationships to achieve strong business results. Our U.S. ordinary life reinsurance business now reinsures policies covering 4.8 million people for US$180 billion of insurance.

Management appointments

In May 2008, following a distinguished career as President and Chief Executive Officer, Raymond L. McFeetors was appointed Chairman of the Board, succeeding Robert Gratton. D. Allen Loney, former Chief Actuary of Lifeco subsidiaries Great-West Life, London Life and Canada Life, was appointed as President and CEO of Lifeco, in succession to Mr. McFeetors.

Additionally, new senior management appointments were announced at the annual meeting, from amongst longstanding members of the current executive management team: William L. Acton as President and CEO of Canada Life Capital Corporation (CLCC), the holding company for the European operations; Mitchell T.G. Graye as President and CEO of Great-West Life & Annuity Insurance Company (GWL&A); Paul Mahon as President and Chief Operating Officer, Canada, following the retirement of Denis J. Devos after 35 years of distinguished service; and William W. Lovatt as Executive Vice-President and Chief Financial Officer of Lifeco.

Robert L. Reynolds subsequently joined the organization July 1 as President and CEO of Putnam, bringing to Putnam's senior management team substantial industry experience.

Board of Directors

At Lifeco's 2008 Annual Meeting of Shareholders, tribute was paid to Robert Gratton for his outstanding contribution to the growth and evolution of the organization during his six-year tenure as Chairman of the Board.

Also in 2008, Robert Gratton retired from the Board after serving as a Director since April 1990. Mr. Gratton made an outstanding contribution to Lifeco and its subsidiaries through his vision, drive and determination to expand the Corporation through acquisitions; his skill in structuring the financing of these transactions, his cultivation of a multi-country governance structure and the wisdom he applied to business issues. The Board of Directors would like to express their sincere appreciation and gratitude to Mr. Gratton for his guidance and leadership throughout the years.

At the 2008 Annual Meeting it was also announced that Gail S. Asper, Gérard Veilleux and Peter Kruyt were retiring from the Board of Directors. Ms. Asper and Mr. Veilleux had served as Directors since 1998, and Mr. Kruyt had served as a Director since 2003. Through their participation on the Board and various Board Committees, each of these Directors made a valuable contribution to the affairs of the Corporation, and we thank them sincerely for their years of service.

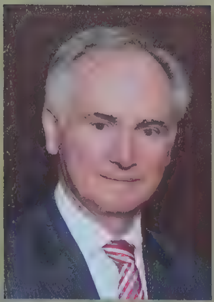
At the annual meeting three new individuals were elected to the Board: Marc A. Bibeau, President of Beauward Shopping Centers Ltd.; Chaviva M. Hošek, President and Chief Executive Officer of The Canadian Institute for Advanced Research; and Philip K. Ryan, Executive Vice-President and Chief Financial Officer of Power Financial Corporation and Power Corporation of Canada.

William (Bill) T. McCallum, Vice-Chairman (and former President and Chief Executive Officer) of Great-West Life & Annuity Insurance Company and former Co-President and Chief Executive Officer of Lifeco, retired in 2008 after serving as a Director of the Corporation for 15 years. The Board of Directors would like to sincerely thank Mr. McCallum for his many years of dedicated service. Allen Loney was appointed to the Corporation's Board of Directors to fill the resulting vacancy.

On behalf of the Board of Directors, it is our pleasure to recognize the professionalism and continuing dedication of the people across our companies who serve our clients and distribution associates worldwide. We also thank our clients, distribution associates and shareholders for their continued support.

Raymond L. McFeetors
Chairman of the Board

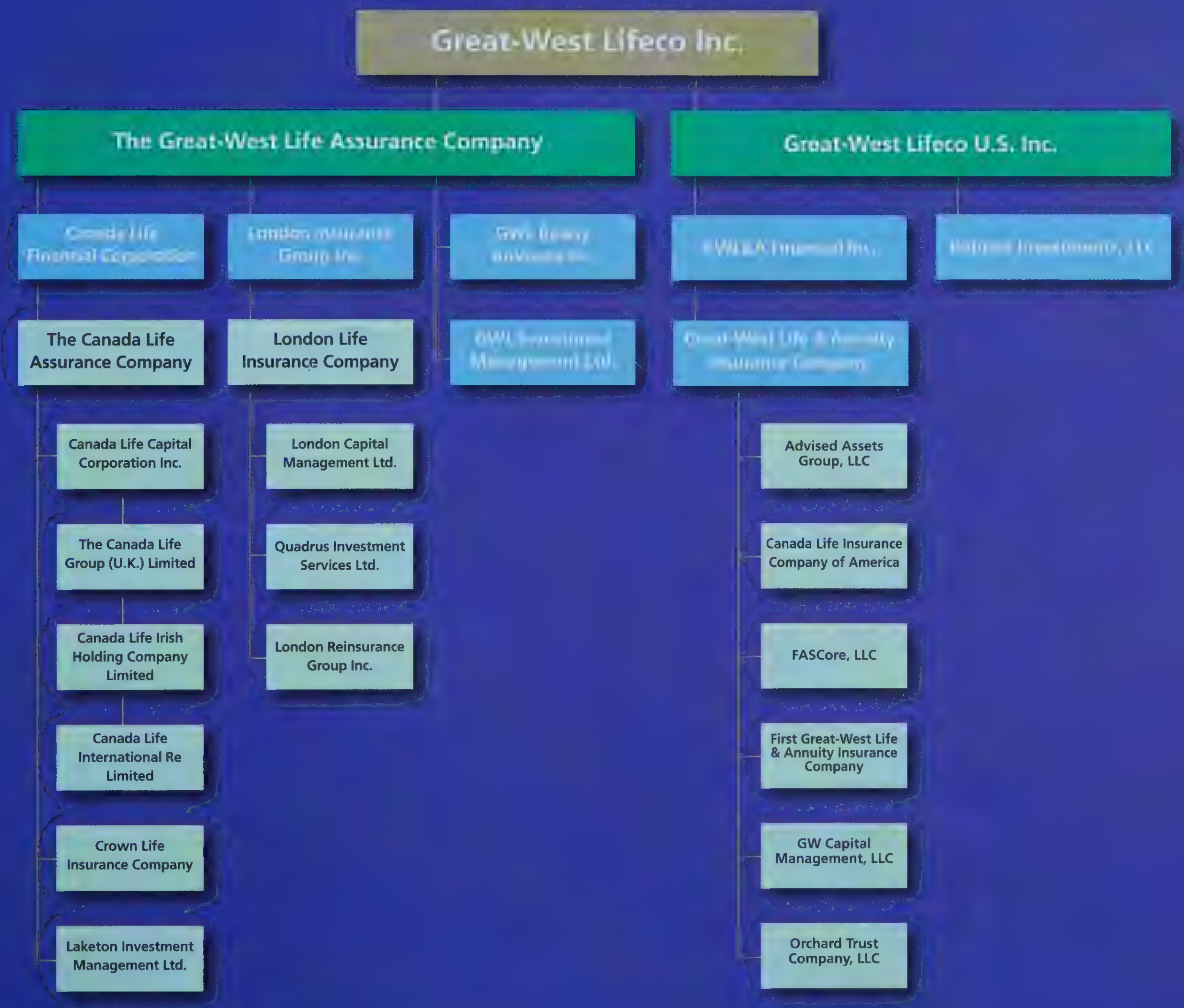
D. Allen Loney
President and Chief Executive Officer



Corporate Profile

Great-West Lifeco Inc. (TSX:GWO) is a financial services holding company with interests in the life insurance, health insurance, retirement savings, investment management and reinsurance businesses. The Corporation has operations in Canada, the United States, Europe and Asia through The Great-West Life Assurance Company, London Life Insurance Company, The Canada Life Assurance Company, Great-West Life & Annuity Insurance Company and Putnam Investments, LLC. Lifeco and its companies have approximately $339 billion in assets under administration, and are members of the Power Financial Corporation group of companies.

** Assets as of December 31, 2008*



The chart above depicts the corporate relationships among Lifeco and its material and certain other subsidiaries as at December 31, 2008. Lifeco beneficially owns, or exercises control or direction over, 100% of the voting securities of each such subsidiary.

Business Overview

Lifeco's three operating regions | **Major Brands** | **Products and services**

Canada

Major Brands: Great-West Life, London Life, Canada Life, Freedom 55 Financial, Quadrus

- Life, disability and critical illness insurance for individuals and families
- Retirement savings and income plans for individuals and groups, including segregated funds, as well as proprietary and third-party mutual funds through Quadrus Investment Services Ltd.
- Fund management, investment and advisory services through GWL Realty Advisors Inc., GWL Investment Management Ltd., London Capital Management Ltd. and Laketon Investment Management Ltd.
- Comprehensive benefit solutions for small, medium and large employer groups, including life, short-term and long-term disability, critical illness, hospital, prescription drug, dental, extended healthcare and out-of-country medical coverage. Services include online plan member and plan administrator services, attendance support services, disability management and employee rehabilitation services as well as *Best Doctors*™ medical referral services
- Creditor insurance, including life, disability, job loss and critical illness coverage
- Life, health, accident and critical illness insurance for members of affinity groups

United States

Major Brands: Great-West Life & Annuity, First Great-West Life & Annuity, Great-West Retirement Services, FASCore, Advised Assets Group, Maxim Series Funds

- Employer-sponsored defined contribution plans, enrollment services, communication materials, investment options and education services
- Administrative and record keeping services for financial institutions and employer-sponsored defined contribution plans and associated defined benefit plans
- Fund management, investment and advisory services
- Variable life insurance and annuities, customized individual term and whole life insurance and annuity products
- Business-owned life insurance and executive benefits products

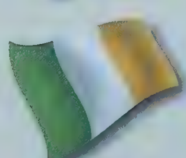
Putnam

- Global asset management in mutual funds, institutional portfolios; 401(k)s, IRAs, and other retirement plans; variable annuities; and alternative investments
- Strategies include traditional long-only equity and fixed income, absolute return, and private equity

PanAgora Asset Management

- Active portfolio management and research capabilities utilizing quantitative investment techniques. Offers a broad range of strategies spanning regions, risk levels, and asset classes, including: equity, fixed income, currency, global macro, multi-asset and alternative investment approaches

Europe



Canada Life

Protection and wealth management products and related services in the United Kingdom, Isle of Man, Ireland and Germany:

- Individual life, disability and critical illness insurance
- Group life, income protection and critical illness insurance
- Pensions, savings, investments and payout annuities
- Fund Management through Setanta Asset Managers and Canada Life Asset Management Ltd.

Canada Life Reinsurance, London Reinsurance Group

Reinsurance and retrocession business primarily in the United States and European markets:

- Life insurance – yearly renewable term and co-insurance
- Property and casualty – catastrophe
- Annuity – fixed and payout

Distribution channels

- Great-West financial security advisors
- Freedom 55 Financial security advisors and Wealth & Estate Planning Group
- Investors Group consultants
- Advisors associated with managing general agencies and national accounts
- Great-West group insurance and retirement sales and service staff in offices across Canada
- Brokers and benefit consultants

Market position

- Serves the financial security needs of more than 12 million Canadians
- Largest portfolio of life insurance measured by premium
- 31% market share of individual living benefits inforce premium
- 30% market share of individual segregated funds
- 22.1% market share for group insurance plans
- 20% market share of group capital accumulation plans
- Leading market share for creditor insurance plans

- Retirement services products distributed through brokers, consultants and advisors to plan sponsors
- FASCore record keeping and administrative services distributed through institutional partners
- Individual life insurance and annuity products distributed through financial institutions
- Business-owned life insurance and executive benefits products distributed through specialized consultants and through Great-West Retirement Services

- Provides 401(k), 401(a), 403(b) and 457 retirement plan services to nearly 21,000 plans
- Serves 3.7 million participant accounts
- 12% market share in business-owned life insurance purchased by financial institutions with up to US$35 billion in total assets

- Supports retail investors, financial planners and financial institutions
- Services institutional clients and consultants worldwide through joint ventures, dedicated account management teams and intermediary relationships

- Over 6 million shareholders and retirement plan participants; and over 120 institutional clients
- Nearly 100,000 advisors distribute Putnam products
- Provides services to over 800 defined contribution plans
- Nearly 1.2 million U.S. participant accounts in 401(k) plans
- A leading provider of Taft-Hartley services

- Institutional investors
- Sub-advisory

- Serves over 100 institutional investors, including many of the world's top 300 plans

---

U.K. and Isle of Man

- Independent financial advisors
- Employee benefit consultants

Ireland

- Independent brokers and direct sales force

Germany

- Independent brokers

U.K. and Isle of Man

- Among top 20 life insurance companies
- 33% share of group life market
- 20% share of group income protection market
- 9% share of offshore single premium investment product market
- Among top four insurers in payout annuities, with 8% market share

Ireland

- Among top six insurers by new business market share
- 5% of Irish life assurance market

Germany

- Among the top two insurers in broker unit-linked market
- 1% market share in the German market

Reinsurance

- Independent reinsurance brokers
- Direct placements

Reinsurance

- Among top ten life reinsurers in the U.S. by assumed business
- Niche positions in property and casualty and annuity businesses

The Management's Discussion and Analysis (MD&A) presents management's view of the financial condition, results of operations and cash flows of Great-West Lifeco Inc. (Lifeco or the Company) for the three months and twelve months ended December 31, 2008 compared with the same periods in 2007. The MD&A provides an overall discussion, followed by analysis of the performance of its three major reportable segments: Canada, United States and Europe.

BUSINESSES OF LIFECO

Lifeco has operations in Canada, the United States, Europe and Asia through The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life), The Canada Life Assurance Company (Canada Life), Great-West Life & Annuity Insurance Company (GWL&A), and commencing August 3, 2007, Putnam Investments, LLC (Putnam).

In Canada, Great-West Life and its operating subsidiaries, London Life and Canada Life (owned through holding companies London Insurance Group Inc. (LIG) and Canada Life Financial Corporation (CLFC), respectively), offer a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations, through a network of Freedom 55 Financial™ and Great-West Life financial security advisors, and through a multi-channel network of brokers, advisors and financial institutions.

In the U.S., GWL&A is a leader in meeting the retirement income needs of employees in the public/non-profit and corporate sectors. It serves its customers nationwide through a range of financial products and services marketed through brokers, consultants and group representatives, and through other financial institutions. Putnam provides investment management, certain administrative functions, distribution, and related services through a broad range of investment products, including the Putnam Funds, its own family of mutual funds which are offered to individual and institutional investors.

In Europe, Canada Life is broadly organized along geographically defined market segments and offers protection and wealth management products, including payout annuity products, and reinsurance. The Europe segment is comprised of two distinct business units: Insurance & Annuities, which consists of operations in the United Kingdom, Isle of Man, Ireland and Germany; and Reinsurance, which operates primarily in the United States, Barbados and Ireland. Reinsurance products are provided through Canada Life, London Reinsurance Group Inc. (LRG) and their subsidiaries.

Lifeco currently has no other holdings and carries on no business or activities unrelated to its holdings in Great-West Life, GWL&A, Putnam and their subsidiaries. Lifeco is not restricted to investing in the shares of Great-West Life, GWL&A, Putnam and their subsidiaries and may make other investments in the future.

DISCONTINUED OPERATIONS

On April 1, 2008, Lifeco announced that GWL&A completed the sale of its health care business, Great-West Healthcare. As part of the transaction, GWL&A received consideration of US$1.5 billion in gross proceeds, and approximately US$750 million, representing the amount of equity invested in the health care business, was made available for other purposes. The sale proceeds and the equity invested were applied to outstanding short term credit facilities and a term loan.

The operating results and assets and liabilities of the health care business have been treated as discontinued operations in the financial statements of the Company. As a result, amounts pertaining to the discontinued U.S. Healthcare operations have been removed from the financial statements for 2008 and 2007. Net income from discontinued operations is shown as a separate line item on the Summaries of Consolidated Operations. In this MD&A, unless otherwise indicated, comparative amounts for 2007 have been restated to exclude amounts pertaining to Discontinued Operations.

BASIS OF PRESENTATION AND SUMMARY OF ACCOUNTING POLICIES

The consolidated financial statements of Lifeco, which are the basis for data presented in this report, have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars unless otherwise indicated.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This report contains some forward-looking statements about the Company, including its business operations, strategy and expected financial performance and condition. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates" or negative versions thereof and similar expressions. In addition, any statement that may be made concerning future financial performance (including revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future action by the Company, including statements made by the Company with respect to the expected benefits of acquisitions or divestitures, are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the financial services industry generally, including the insurance and mutual fund industries. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements made by the Company due to, but not limited to, important factors such as sales levels, premium income, fee income, expense levels, mortality experience, morbidity experience, policy lapse rates and taxes, as well as general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government regulations, unexpected judicial or regulatory proceedings, catastrophic events, and the Company's ability to complete strategic transactions and integrate acquisitions. The reader is cautioned that the foregoing list of important factors is not exhaustive, and there may be other factors, including factors set out herein under "Risk Management and Control Practices", and any listed in other filings with securities regulators, which are available for review at www.sedar.com. The reader is also cautioned to consider these and other factors carefully and to not place undue reliance on forward-looking statements. Other than as specifically required by applicable law, the Company has no intention to update any forward-looking statements whether as a result of new information, future events or otherwise.

CAUTIONARY NOTE REGARDING NON-GAAP FINANCIAL MEASURES

This report contains some non-GAAP financial measures. Terms by which non-GAAP financial measures are identified include, but are not limited to, "earnings before restructuring charges", "adjusted net income", "net income – adjusted", "earnings before adjustments", "constant currency basis", "premiums and deposits", "sales", and other similar expressions. Non-GAAP financial measures are used to provide management and investors with additional measures of performance. However, non-GAAP financial measures do not have standard meanings prescribed by GAAP and are not directly comparable to similar measures used by other companies. Refer to the appropriate reconciliations of these non-GAAP financial measures to measures prescribed by GAAP.

CONSOLIDATED OPERATING RESULTS

Selected Consolidated Financial Information (in $ millions, except per share amounts)

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	**2008**	2007	% Change
Premiums and deposits:						
Life insurance, guaranteed annuities and insured health products	**$ 4,782**	$ 5,764	-17%	**$ 30,007**	$ 18,753	60%
Self-funded premium equivalents (ASO contracts)	**615**	570	8%	**2,410**	2,233	8%
Segregated funds deposits:						
Individual products	**2,054**	1,935	6%	**7,825**	9,183	-15%
Group products	**1,399**	1,460	-4%	**5,524**	5,788	-5%
Proprietary mutual funds and institutional deposits [1]	**6,484**	6,177	5%	**30,693**	11,183	–
Total premiums and deposits	**15,334**	15,906	-4%	**76,459**	47,140	62%
Fee and other income	**743**	861	-14%	**3,124**	2,703	16%
Paid or credited to policyholders	**4,815**	6,840	-30%	**26,774**	19,122	40%
Net income – common shareholders [4]						
Continuing operations – adjusted [3]	**525**	494	6%	**2,018**	1,950	3%
Discontinued operations – adjusted [2]	**–**	43	–	**43**	203	-79%
Net income – adjusted [3]	**525**	537	-2%	**2,061**	2,153	-4%
Adjustments after-tax [3]	**(1,432)**	–	–	**(665)**	(97)	–
Net income	**(907)**	537	–	**1,396**	2,056	-32%
Per common share						
Basic earnings – adjusted [3]	**$ 0.586**	$ 0.601	-2%	**$ 2.303**	$ 2.413	-5%
Adjustments after-tax [3]	**(1.597)**	–	–	**(0.743)**	(0.109)	–
Basic earnings	**(1.011)**	0.601	–	**1.560**	2.304	-32%
Dividends paid	**0.3075**	0.275	12%	**1.200**	1.060	13%
Book value				**12.61**	10.98	15%
Return on common shareholders' equity						
Net income – adjusted [3]				**19.0%**	21.6%	
Net income				**12.7%**	20.7%	
At December 31						
Total assets				**$ 130,074**	$ 118,194	10%
Segregated funds net assets				**77,748**	89,181	-13%
Proprietary mutual funds and institutional net assets [5]				**131,122**	179,162	-27%
Total assets under administration				**$ 338,944**	$ 386,537	-12%
Share capital and surplus				**$ 13,228**	$ 10,908	21%

(1) Includes Putnam Investments, LLC mutual funds and institutional deposits, excluding Prime Money Market Fund net deposits.

(2) Represents the operating results of GWL&A's health care business, which was sold effective April 1, 2008. Does not include the gain on sale of the health care business.

(3) Net income, basic earnings per common share and return on common shareholders' equity are presented on an adjusted basis, as a non-GAAP financial measure of earnings performance, and reflect the following items in 2008:

	Net income		Per common share: In quarter	Per common share: Year-to-date	Refer to Annual Financial Statement Notes:
Q1: Gain on termination of reinsurance agreement	$ 176		$ –	$ 0.197	Note 14
Reserve strengthening in GWL&A	(58)	$ 118	–	(0.065)	Note 2
Q2: Gain on sale of GWL&A's health care business	649	649	–	0.725	Note 2
Q4: Intangible & goodwill impairment	(1,353)		(1.508)	(1.511)	Note 7
Valuation allowance, income tax	(34)		(0.038)	(0.038)	Note 22
Restructuring costs	(45)	(1,432)	(0.051)	(0.051)	Note 3
		$ (665)	$ (1.597)	$ (0.743)	

During 2007, net income attributable to common shareholders was reduced by $97 million after-tax ($0.109 per common share) as a result of a provision for certain Canadian retirement plans.

(4) Net income for year ended December 31, 2008 includes asset impairment charges of $100 million after-tax and costs of $19 million associated with the transfer of Putnam's Prime Money Market Fund to Federated Investors, Inc.

(5) Excludes Putnam Prime Money Market Fund.

Reinsurance Transaction

Standard Life Transaction

On February 14, 2008, the Company's indirect wholly-owned Irish reinsurance subsidiary, Canada Life International Re Limited (CLIRe), signed an agreement with Standard Life Assurance Limited (Standard Life), a U.K. based provider of life, pension and investment products, to assume by way of indemnity reinsurance, a large block of U.K. payout annuities (the Standard Life transaction). The reinsurance transaction increased premium income, paid or credited to policyholders, funds held by ceding issuers and policyholders liabilities by approximately $12.5 billion.

Financial Markets

Financial Market Volatility

Global credit, equity and foreign exchange markets continue to experience significant volatility as a result of credit and liquidity concerns relating ultimately to the deterioration in the United States mortgage and housing markets. These concerns have led to the disruption in the normal functioning of credit markets around the world, unprecedented volatility and have resulted in many financial institutions experiencing financial difficulty. Governments across the globe have introduced measures intended to instill confidence in financial markets for financial institutions and their clients.

The Company has observed that liquidity in the fixed income market has marginally improved in recent weeks. Liquidity has not returned to "normal" levels, however new issues of financial instruments have successfully come to the market with some oversubscribed and a modest level of trading is taking place.

The S&P TSX index declined 24% in the fourth quarter which has resulted in a decline of 35% since the beginning of the year. Also, in the quarter the S&P 500 index declined 23% and the FTSE 100 index declined 10% which has resulted in declines of 38% and 31% respectively since the beginning of the year.

Consequently, the average S&P TSX index level for the fourth quarter of 2008 was 34% lower than the same period in 2007. Similarly the average index levels for the S&P 500 and the FTSE 100 were down 39% and 34% respectively from 2007 levels. The declines in average index levels were more moderate when comparing the year-to-date periods for 2008 and 2007. The average index level for the S&P TSX for the year was down 8% compared to 2007 and the S&P 500 and the FTSE 100 were 17% and 16% respectively.

Period ended	Year ended 2008	Dec. 31 2008	Sept. 30 2008	June 30 2008	Mar. 31 2008	Year ended 2007	Dec. 31 2007	Sept. 30 2007	June 30 2007	Mar. 31 2007
S&P TSX Index										
Close	8,988	8,988	11,753	14,467	13,350	13,833	13,833	14,099	13,907	13,166
Average	12,486	9,108	13,150	14,400	13,269	13,620	13,885	13,816	13,806	12,986
S&P 500 Index										
Close	903	903	1,166	1,280	1,323	1,468	1,468	1,527	1,503	1,421
Average	1,220	912	1,252	1,372	1,351	1,477	1,496	1,489	1,497	1,424
FTSE Index										
Close	4,434	4,434	4,902	5,626	5,702	6,457	6,457	6,467	6,608	6,308
Average	5,363	4,260	5,354	5,983	5,881	6,403	6,455	6,362	6,537	6,266

Lifeco Developments

Impact on Operating Results

Impairment testing of goodwill and intangible assets

During the fourth quarter, the Company conducted its annual test for goodwill and intangible assets impairment. The test resulted in the Company recording a non-cash, after-tax impairment charge of $1,353 million (US$1,118 million) in connection with goodwill and intangible assets in the Company's United States operating segment.

The impairment charge reduces the carrying value of goodwill and intangible assets acquired in connection with the acquisition of Putnam in August 2007. The impairment charge reflects management's assessment of the impact of the decline of Putnam's assets under management (AUM) as a result of the deterioration of investment market conditions since the acquisition date. The decrease in AUM, together with the current investment market and economic conditions and the expected timing of their future recovery have lowered the Company's previous estimates of Putnam's future revenues and cash flows.

The impairment charge resulted in the following, in the United States operating segment:

Summaries of Consolidated Operations: a non-cash, pre-tax charge of US$901 million (US$560 million after-tax) related to intangible assets and a non-cash, pre-tax charge of US$899 million (US$558 million after-tax) related to goodwill. The after-tax results are net of Putnam's non-controlling interests portion of the charges of US$6 million.

Consolidated Balance Sheets: a decrease in intangible assets of US$901 million (US$92 million related to brand and US$809 million related to customer contracts), a decrease in goodwill of US$899 million and an increase of US$676 million in Other Assets related to future tax assets. Accumulated surplus is reduced by the after-tax charges relating to goodwill and intangible assets.

A further discussion of impairment testing of goodwill and intangible assets can found in the Critical Accounting Estimates section of this MD&A and Putnam's operations are further discussed in the United States section.

Other impairment charges

On September 18, 2008, Lifeco issued a news release confirming that it held fixed income securities issued by Lehman Brothers Holdings Inc. (Lehman) with a par value of $101 million, and had investment exposure to various companies in the American International Group (AIG) with a par value of $347 million, including $149 million of fixed income securities issued by the holding company, American International Group Inc. On September 26, 2008, Lifeco issued a news release confirming that it had investment exposure to Washington Mutual Inc. with a par value of $2 million.

For the twelve months ended December 31, 2008, the Company recorded a charge for the impairment of assets of $100.0 million after-tax. This charge is considered to be "other-than-temporary", and has reduced net income attributable to common shareholders reported by the Company. Fourth quarter charges of $4.5 million, reflect additional market value fluctuations on investment exposures highlighted as impaired in the third quarter report, as well as other provision charges.

Charges for asset impairment

	December 31 2008 Total par value	December 31 2008 Market value [1]	December 31 2008 Shareholder after-tax charge	September 30 2008 Shareholder after-tax charge
Lehman Brothers Holdings Inc.	$ 107.8	$ 10	$ 47.0	$ 44.7
Washington Mutual Inc. (sold @ $40)	2.1	40	0.9	0.9
Bradford & Bingley PLC	31.7	22	18.3	19.3
American International Group – Holdco Bonds [2]	39.4	24	22.6	24.9
Other provisions	–		11.2	5.7
Total	$ 181.0		$ 100.0	$ 95.5

(1) Per $100 par value.
(2) AIG 5.75% subordinated debentures due 2067.

	Total par value		Shareholder after-tax charge (December 31 2008)	Shareholder after-tax charge (September 30 2008)
By segment				
Canada	$ 30.0		$ 14.5	$ 11.5
Europe	87.5		53.7	54.3
U.S.	63.5		31.8	29.7
Total	$ 181.0		$ 100.0	$ 95.5

Other developments

Life insurers offering segregated fund or variable annuity investment performance guarantees have been adversely impacted by low interest rates and equity market declines. The high level of equity market volatility has increased the cost of dynamic hedging programs and in turn restricted the availability of reinsurance. In response, we expect life insurers to revise product designs to reduce benefit costs and to increase prices.

The Company will monitor developments in this area and will consider introducing lifetime income guarantee products in 2009 to reinforce our market leading position in Canada and to extend our U.S. and European product and distribution range.

Great-West Life, London Life and Canada Life temporarily suspended withdrawals and transfers-out from their Real Estate Segregated Funds (the Funds), effective the close of business December 15, 2008. The economic situation in 2008 significantly increased investors' preference for liquidity, which impacted equity markets, including real estate. One of the impacts was an increase in withdrawals and transfers-out from the Funds. In accordance with the terms of the Information Folder governing the Funds, management determined the need to temporarily suspend withdrawals and transfers-out from the Funds in order to preserve unitholder value, to balance the interests of all unitholders and to treat everyone fairly. The companies are working to rebuild liquidity to support the long-term viability of the funds, and to enable the suspension to be lifted.

On October 1, 2008, Putnam issued a news release announcing that it will participate in the Money Market Guaranty Program recently introduced by the U.S. Treasury. Participation in this program will provide shareholders of Putnam's retail money market funds with protection, in the event of a fund's liquidation, against the net asset value of the funds falling below $0.995 per share.

On September 24, 2008, Putnam issued a news release announcing that it had entered into a transaction with Federated Investors, Inc. that would result in the liquidation of Putnam's US$12.3 billion institutional Prime Money Market Fund. Under this transaction, shareholders of the Putnam Prime Money Market Fund would receive shares of the Federated Prime Obligations Fund on a $1-per-share for $1-per-share basis (the Putnam Prime Money Market transaction).

Unrealized mark-to-market losses

In addition to "other-than-temporary" impairment charges, the deterioration in financial markets, as well as extreme illiquidity of the bond markets coupled with indeterminable liquidity premiums, has produced a general widening of credit spreads and lower market prices for fixed income investments. This has resulted in a decline in the fair value of Lifeco's bond investments. At December 31, 2008, gross unrealized bond losses totaled \$6.1 billion. Of the \$6.1 billion, \$5.7 billion is related to bonds that have been classified as held for trading and \$0.4 billion is related to bonds that have been classified as available for sale. The held for trading bonds are held primarily in support of actuarial liabilities with changes in the fair value of these assets, excluding changes on other-than-temporarily impaired assets, offset by a corresponding change in the value of the actuarial liabilities. The Company has the ability and intent to hold the securities with unrealized losses until a recovery of the fair value, which may be maturity; therefore, the Company does not consider these investments to be other than temporarily impaired at December 31, 2008.

Gross unrealized bond losses [1]

C$ billions	December 31, 2008			September 30, 2008		
Classification						
Held for trading	$	(5.7)	93%	$	(4.7)	96%
Available for sale		(0.4)	7		(0.2)	4
Total other general fund assets	**$**	**(6.1)**	**100%**	$	(4.9)	100%

(1) Includes unrealized bond losses on funds held by ceding insurers.

Other charges

In connection with the Putnam Prime Money Market transaction, Putnam incurred charges totaling \$19 million after-tax in the third quarter of 2008.

Impact on Liquidity and Financial Condition

The Company's liquidity requirements are self-funded, with short term obligations being met by generating internal funds and maintaining adequate levels of liquid investments. At December 31, 2008, Lifeco held cash and liquid short term investments of \$5.6 billion, including \$1.2 billion held directly at the holding company level as a result of the fourth quarter issuance of preferred and common shares. In addition, Lifeco and its operating subsidiaries held Canada, United States and foreign government bonds of \$19.4 billion. Lifeco also maintains a \$200 million committed line of credit with a Canadian chartered bank.

Lifeco's financial condition and regulatory capital position remained strong at December 31, 2008. In this regard, Canadian operating companies consolidated Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio was 210%, which is above the Company's target operating range. The MCCSR ratio includes no impact from the fourth quarter issuance of preferred and common shares as the proceeds were retained in liquid assets at the holding company level. During the fourth quarter, the unfavourable impact of equity markets on capital requirements associated with certain segregated fund contracts with investment performance guarantees was offset by the favourable impact of growth in retained earnings combined with the favourable impact of changes in assumptions and methods.

The estimated RBC ratio of GWL&A, the U.S. operating company, at December 31, 2008, reported annually to U.S. insurance regulators, was 406%, which is well in excess of minimum requirements.

While the Company's financial condition remained strong at December 31, 2008, further deterioration in financial markets would be expected to have a negative impact.

Measurement Uncertainty

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. The results of the Company reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions. Financial instrument carrying values currently reflect the illiquidity of the markets and the liquidity premiums embedded in the market pricing methods the Company relies upon.

The estimation of actuarial liabilities relies upon investment credit ratings. The Company's practice is to use third party independent credit ratings where available. Credit rating changes may lag developments in the current environment. Subsequent credit rating adjustments will impact actuarial liabilities.

In addition to the Company's direct investments in certain financial institutions, the Company has contractual business relationships with these financial institutions. Given the current uncertainty associated with these entities, normal business conditions do not prevail and the Company's contractual business relationships may be impacted.

Given the uncertainty surrounding the continued volatility in these markets, and the general lack of liquidity in financial markets, the actual financial results could differ from the estimates made in preparation of the financial statements.

Consolidated Operating Results

Net Income

Consolidated net income of Lifeco includes the net income of Great-West Life and its operating subsidiaries London Life and Canada Life, GWL&A and Putnam, together with Lifeco's corporate results.

Lifeco's net income attributable to common shareholders for the year ended December 31, 2008 was $1,396 million compared to $2,056 million reported a year ago, a decrease of 32%. On a per share basis, this represents $1.560 per common share ($1.553 diluted) for the twelve months of 2008 compared to $2.304 per common share ($2.287 diluted) a year ago.

The 2008 results include the following:

The impact of certain items, described below, that totaled $(1,432) million after-tax ($(1.597) per common share) for the three months ended December 31, 2008, and $(665) million after-tax ($(0.743) per common share) for the twelve months ended December 31, 2008.

In the fourth quarter, the Company recorded a non-cash impairment charge in connection with Putnam goodwill and intangibles of $(1,353) million after-tax. In addition, the Company recorded a valuation allowance against a Putnam deferred tax asset of $(34) million after-tax, and a Putnam restructuring charge of $(45) million after-tax. These items are described in notes 3, 7 and 22 to the annual financial statements.

In addition to these fourth quarter charges, the Company recorded the following items in 2008. In the second quarter, the Company realized a gain of $649 million after-tax in connection with the sale of its Great-West Healthcare business. In the first quarter, the Company realized a gain of $176 million after-tax in connection with the termination of a long-standing assumption reinsurance agreement under which GWL&A had reinsured a block of U.S. participating policies, and the Company increased policy reserves by $58 million after-tax to provide for an increase in overhead costs expected to be absorbed as a result of the sale of Great-West Healthcare. The first and second quarter items are described in notes 2 and 14 to the annual financial statements.

Excluding the adjustments for the full year of 2008, net income adjusted attributable to common shareholders is $2,061 million or $2.303 per common share.

The 2007 results include a $97 million after-tax provision for certain Canadian retirement plans, which impacted earnings per common share by $0.109.

Net income – common shareholders

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Canada	$ 228	$ 246	-7%	$ 1,003	$ 973	3%
United States	82	98	-16%	309	366	-16%
Europe	224	150	49%	726	611	19%
Lifeco Corporate	(9)	–	–	(20)	–	–
Continuing operations – adjusted	525	494	6%	2,018	1,950	3%
Discontinued operations – adjusted	–	43	–	43	203	-79%
Total adjusted	525	537	-2%	2,061	2,153	-4%
Adjustments	(1,432)	–	–	(665)	(97)	–
Total Lifeco	$ (907)	$ 537	–	$ 1,396	$ 2,056	-32%

Adjusted net income attributable to common shareholders:

Canada – For the fourth quarter, net income decreased $18 million to $228 million in 2008. Individual Insurance & Investment Products (IIIP) decreased $49 million, Group Insurance decreased $7 million, and Canada Corporate increased $38 million.

For the full year 2008, net income increased $30 million compared to 2007 to $1,003 million. IIIP increased $36 million, Group Insurance increased $7 million, and Canada Corporate decreased $13 million.

United States – For the fourth quarter, net income from continuing operations decreased $16 million to $82 million in 2008. Financial Services increased $41 million, Asset Management decreased $44 million, and United States Corporate decreased $13 million.

For the full year 2008, net income from continuing operations decreased $57 million compared to 2007 to $309 million. Financial Services increased $19 million, Asset Management decreased $65 million, and United States Corporate decreased $11 million.

Europe – For the fourth quarter, net income increased $74 million to $224 million in 2008. Insurance & Annuities increased $48 million, Reinsurance increased $28 million, and Europe Corporate was down $2 million.

For the full year 2008, net income increased $115 million compared to 2007 to $726 million. Insurance & Annuities increased $75 million, Reinsurance increased $64 million, and Europe Corporate decreased $24 million.

Lifeco Corporate – For the fourth quarter, Lifeco Corporate net income was a charge of $9 million compared to nil in 2007. The charge is due to unfavourable currency movement on certain foreign currency denominated liabilities.

For the full year 2008, Lifeco Corporate net income was a charge of $20 million compared to nil in 2007, for the same reason as the in quarter period.

Discontinued Operations – On April 1, 2008, Lifeco announced that its subsidiary GWL&A, completed the sale of its U.S. health care business. Accordingly, the operating results for this business for 2008 and 2007 are shown separately as discontinued operations.

Refer to each segment section for further detail.

Premiums and Deposits

Premiums and deposits includes premiums on risk-based insurance and annuity products as well as premium equivalents on self-funded group insurance administrative services only contracts, and deposits on individual and group segregated fund products and proprietary mutual funds and institutional accounts.

In the third quarter of 2008, Putnam liquidated its Prime Money Market Fund. Premiums and deposits exclude Prime Money Market Funds net deposits to facilitate comparison to prior periods: fourth quarter 2008 US$0 million, fourth quarter 2007 US$3,422 million; and full year 2008 US$(7,508) million, full year 2007 US$4,781 million.

For the fourth quarter, total premiums and deposits were $15,334 million, a decrease of $572 million over the fourth quarter of 2007. Canada was down $1,623 million, United States increased $1,133 million and Europe was down $82 million.

In Canada, premiums decreased $1,253 million on risk-based products due to $1,574 million of premiums recaptured under a bulk reinsurance agreement in 2007. Premium equivalent ASO fees increased $45 million and savings products decreased $415 million due to lower average assets in the last half of 2008. The increase in the United States was mainly due to one large Individual Markets sale and also Asset Management deposits. In Europe, Insurance & Annuities premiums were up $323 million primarily on strong growth in sales of payout annuities and savings products in the U.K. and Isle of Man. Reinsurance premiums were down $405 million due to the commutation of a structured life contract in 2007.

For the year, total premiums and deposits were $76,459 million, an increase of $29,319 million from 2007. Premiums and deposits in Canada decreased $1,244 million. The United States increased $20,390 million due to including deposits from Asset Management (Putnam) for the full year in 2008 compared to five months in 2007. Europe was up $10,173 million due primarily to the assumed business from the Standard Life transaction.

Refer to each segment section for further detail.

Net Investment Income

Net investment income	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Investment income earned	$ 1,451	$ 1,268	14%	$ 5,910	$ 5,446	9%
Amortization of net realized and unrealized gains on real estate investments	(5)	15	–	23	71	-68%
(Provision)/recovery of credit losses	(5)	3	–	(4)	10	–
Other net realized gains/(losses)	–	33	–	98	107	-8%
Regular investment income	1,441	1,319	9%	6,027	5,634	7%
Investment expenses	(18)	(15)	–	(65)	(69)	–
Regular net investment income	1,423	1,304	9%	5,962	5,565	7%
Changes in fair value of held for trading assets	(368)	821	–	(5,161)	(1,098)	–
Net investment income	$ 1,055	$ 2,125	-50%	$ 801	$ 4,467	-82%

Net investment income for the three months ended December 31, 2008 decreased by $1,070 million compared to the same period last year. The year-over-year decrease in fair value of held for trading assets of $1,189 million, partly offset by an increase in regular net investment income of $119 million account for the change. Regular net investment income increased due to investment income earned from the Standard Life transaction partly offset by lower amortization of net realized and unrealized gains on real estate investments. The changes in fair value on held for trading assets was due to a decline in bonds and stocks attributable to increased credit spreads and equity market declines and includes a charge for the impairment of assets.

For the twelve months ended December 31, 2008, net investment income decreased by $3,666 million compared to the same period last year. The decrease reflects the year-over-year decrease in fair value of held for trading assets of $4,063 million partly offset by an increase in regular net investment income of $397 million and is due to the same reasons as the in quarter period.

Fee and Other Income

In addition to providing traditional risk-based insurance products, the Company also provides certain products on a fee-for-service basis. The most significant of these products are segregated funds and mutual funds, for which the Company earns investment management fees on assets managed and other fees, and ASO contracts, under which the Company provides group benefit plan administration on a cost-plus basis.

Fee and other income	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Segregated funds, mutual funds and other	$ 709	$ 828	-14%	$ 2,988	$ 2,572	16%
ASO contracts	34	33	3%	136	131	4%
Total	$ 743	$ 861	-14%	$ 3,124	$ 2,703	16%

For the quarter, consolidated fee income was $743 million, down $118 million from the fourth quarter of 2007. Canada decreased $36 million due to a drop in average segregated funds assets in the last half of 2008. The United States decreased $79 million, mainly due to a decrease in lower average assets under management. Europe decreased $3 million in connection with reinsurance transactions.

For the year, consolidated fee income was $3,124 million, up $421 million: Canada was up $5 million, United States increased $441 million due to including fee income from Putnam for the full year 2008 compared to five months in 2007, and Europe decreased $25 million, due to decreases in Ireland and Germany.

The Company expects fee income on segregated funds, mutual funds and other to decline in 2009 due to the decline in equity markets and lower average assets.

Paid or Credited to Policyholders

This amount includes increases in policy liabilities, claims, surrenders, annuity and maturity payments, dividend and experience refund payments for risk-based products. It also includes adjustments to actuarial liabilities for changes in fair value of certain invested assets backing those actuarial liabilities. This amount does not include benefit payment amounts for fee-based products (ASO contracts, segregated funds and mutual funds).

For the quarter, consolidated amounts paid or credited to policyholders were $4,815 million, a decrease of $2,025 million from the fourth quarter of 2007. Canada was down $2,163 million due to lower claims and decreases in carrying value of invested assets backing actuarial liabilities. The United States was up $164 million due primarily to the weakening of the Canadian dollar. Europe was down $26 million due to commutations of reinsurance treaties.

For the year, amounts paid or credited to policyholders were $26,774 million, an increase of $7,652 million from 2007. Canada was down $2,649 million due partly to a decrease in the carrying value of invested assets backing liabilities. The United States was down $265 million and Europe was up $10,566 million due mainly to the Standard Life transaction partly offset by the decrease in the carrying value of assets backing actuarial liabilities.

OTHER BENEFITS AND EXPENSES

Included in other benefits and expenses are operating expenses, commissions, interest expense on long-term debt and other borrowings, and dividends on preferred shares, as well as premium taxes.

Other benefits and expenses

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Total expenses	$ 684	$ 662	3%	$ 2,687	$ 2,329	15%
Less: investment expenses	18	15	20%	65	69	-6%
Operating expenses	666	647	3%	2,622	2,260	16%
Commissions	360	374	-4%	1,353	1,366	-1%
Premium taxes	69	57	21%	223	225	-1%
Financing charges	37	84	-56%	296	269	10%
Total	$ 1,132	$ 1,162	-3%	$ 4,494	$ 4,120	9%

Operating expenses for the three months ended December 31, 2008 increased $19 million compared to the same period in 2007. Canada increased $17 million due to one time adjustments related to pension expense. The United States decreased $12 million mainly due to an initiative to realign corporate services. Europe increased $13 million due to expenses related to the improvement in information technology infrastructure and also due to currency movement. Corporate increased $1 million.

Operating expenses for the twelve months ended December 31, 2008 increased $362 million compared to the same period in 2007. Operating expenses for Putnam increased $487 million over 2007 due to its inclusion in the results of Lifeco for the full year of 2008 compared to five months in 2007. The 2007 results include a $151 million provision for certain Canadian retirement plans.

Financing charges consist of interest on debentures and other borrowings, as well as distributions on preferred shares classified as liabilities. The increase for the full year is a result of financing related to Putnam.

INCOME TAXES

Income taxes for the three and twelve month periods ended December 31, 2008 were $(744) million and $(278) million, respectively, compared to $198 million and $582 million for the same periods in 2007. Net income before income taxes were $(1,626) million and $375 million for the three and twelve month periods ended December 31, 2008, compared to $740 million and $2,649 million for the same periods in 2007. The change in income tax is largely due to the tax effect of the non-cash impairment charge recorded on indefinite life intangible assets and goodwill.

CONSOLIDATED FINANCIAL POSITION

Consolidated total assets under administration

	December 31, 2008			
	Canada	United States	Europe	Total
Assets				
Invested assets	$ 46,240	$ 26,277	$ 30,535	$ 103,052
Goodwill and intangible assets	4,973	2,102	1,722	8,797
Other assets	1,961	3,544	12,720	18,225
Total assets	53,174	31,923	44,977	130,074
Segregated funds net assets	38,070	17,824	21,854	77,748
Proprietary mutual funds and institutional net assets (1)	2,172	128,950	–	131,122
Total assets under administration	$ 93,416	$ 178,697	$ 66,831	$ 338,944

	December 31, 2007			
	Canada	United States	Europe	Total
Assets				
Invested assets	$ 45,148	$ 23,045	$ 31,802	$ 99,995
Assets for operations held for sale	–	697	–	697
Goodwill and intangible assets	4,966	3,519	1,727	10,212
Other assets	2,363	2,439	2,488	7,290
Total assets	52,477	29,700	36,017	118,194
Segregated funds net assets	45,932	17,567	25,682	89,181
Proprietary mutual funds and institutional net assets (1)	2,432	176,730	–	179,162
Total assets under administration	$ 100,841	$ 223,997	$ 61,699	$ 386,537

(1) Excludes Putnam Prime Money Market assets.

ASSETS

Total assets under administration at December 31, 2008 were $338.9 billion, a decrease of approximately $47.6 billion from December 31, 2007. General fund assets increased by $11.8 billion from December 31, 2007 in the United States primarily as a result of currency movement, and in Europe due to an increase in other assets as a result of the Standard Life transaction. Segregated funds, mutual funds and institutional accounts decreased by $59.4 billion from December 31, 2007 mainly due to declining economic conditions.

Invested assets

The Company manages its general fund assets to support the cash flow, liquidity and profitability requirements of the Company's insurance and investment products. The Company follows prudent and conservative investment policies, so that assets are not unduly exposed to concentration, credit or market risks. The Company implements strategies within the overall framework of the Company's policies, reviewing and adjusting them on an ongoing basis in light of liability cash flows and capital market conditions. The majority of investments of the general fund are in medium-term and long-term fixed-income investments, primarily bonds and mortgages, reflecting the characteristics of the Company's liabilities.

Asset distribution

	December 31, 2008			
	Canada	United States	Europe	Total
Bonds				
Government bonds	$ 9,292	$ 5,338	$ 7,874	$ 22,504
Corporate bonds	16,939	12,365	14,746	44,050
Sub-total bonds	26,231	17,703	22,620	66,554
Mortgages	12,518	2,157	2,769	17,444
Stocks	4,126	690	578	5,394
Real estate	931	167	2,090	3,188
Sub-total portfolio investments	43,806	20,717	28,057	92,580
Cash and cash equivalents	142	326	2,382	2,850
Policy loans	2,292	5,234	96	7,622
Total invested assets	$ 46,240	$ 26,277	$ 30,535	$ 103,052

	December 31, 2007			
	Canada	United States	Europe	Total
Bonds				
Government bonds	$ 6,848	$ 4,703	$ 8,954	$ 20,505
Corporate bonds	17,925	11,442	15,197	44,564
Sub-total bonds	24,773	16,145	24,151	65,069
Mortgages	11,980	1,639	2,250	15,869
Stocks	5,000	637	906	6,543
Real estate	896	130	1,521	2,547
Sub-total portfolio investments	42,649	18,551	28,828	90,028
Cash and cash equivalents	301	458	2,891	3,650
Policy loans	2,198	4,036	83	6,317
Total invested assets	$ 45,148	$ 23,045	$ 31,802	$ 99,995

Invested assets are recorded at fair value and at December 31, 2008 were $103.1 billion, an increase of $3.1 billion from December 31, 2007. In general, growth in assets from organic business growth and acquisitions have been tempered by lower equity markets and higher credit spreads on stocks and bonds respectively. The distribution of assets has not changed materially and remains heavily weighted to bonds and mortgages.

Bond portfolio quality (excludes $3,395 million short-term investments, $1,690 million in 2007)

Estimated rating	December 31, 2008		December 31, 2007	
AAA	$ 25,138	40%	$ 28,134	44%
AA	10,765	17	10,886	17
A	18,030	28	16,451	26
BBB	8,809	14	7,451	12
BB or lower [(1)]	417	1	457	1
Total	$ 63,159	100%	$ 63,379	100%

(1) Excludes $181 million of bonds that were downgraded from investment grade to BB after December 31, 2008.

Bond portfolio – The total bond portfolio, including short-term investments, was $66.6 billion or 65% of invested assets at December 31, 2008 and $65.1 billion or 65% at December 31, 2007. Federal, provincial and other government securities represented 34% of the bond portfolio compared to 32% in 2007. The overall quality of the bond portfolio remained high, with 99% of the portfolio rated investment grade and 85% rated A or higher.

Mortgage portfolio

	December 31, 2008				December 31, 2007	
Mortgage loans by type	Insured	Non-insured	Total		Total	
Single family residential	$ 1,627	$ 223	$ 1,850	11%	$ 1,794	11%
Multi-family residential	3,418	1,718	5,136	29	5,327	34
Commercial	287	10,171	10,458	60	8,748	55
Total mortgages	$ 5,332	$ 12,112	$ 17,444	100%	$ 15,869	100%

Mortgage portfolio – The total mortgage portfolio was $17.4 billion or 17% of invested assets at December 31, 2008 compared to $15.9 billion or 16% of invested assets at December 31, 2007. Total insured loans were $5.3 billion or 31% of the mortgage portfolio.

It is the Company's practice to acquire only high quality commercial loans meeting strict underwriting standards and diversification criteria. The Company has a well-defined risk rating system, which it uses in its underwriting and credit monitoring processes for commercial mortgages. Residential loans are originated by the Company's mortgage specialists in accordance with well-established underwriting standards and are well-diversified across each geographic region.

Equity portfolio

Equity portfolio by type	December 31, 2008		December 31, 2007	
Publicly traded stocks	$ 4,372	51%	$ 5,563	61%
Privately held equity	1,022	12	980	11
Real estate	3,188	37	2,547	28
Total	$ 8,582	100%	$ 9,090	100%

Equity portfolio – The total equity portfolio was $8.6 billion or 8% of invested assets at December 31, 2008 compared to $9.1 billion or 9% of invested assets at December 31, 2007. The equity portfolio consists of public stocks, private equity and real estate. Publicly traded stocks decreased in 2008 due to equity market value declines, and were partly offset by real estate acquisitions.

Asset quality – general fund assets – Non-investment grade bonds were $417 million or 0.6% of the bond portfolio at December 31, 2008 compared with $457 million or 0.7% of the bond portfolio at December 31, 2007. The net decrease in non-investment grade bonds resulted from repayments as well as a small number of changes in ratings.

Impaired investments

	December 31, 2008			December 31, 2007		
	Gross amount	Other than temporary impairment	Carrying amount	Gross amount	Other than temporary impairment	Carrying amount
Impaired amounts by type						
Held for trading	$ 160	$ (138)	$ 22	$ –	$ –	$ –
Available for sale	18	(17)	1	–	–	–
Loans and receivables	93	(60)	33	42	(53)	(11)
Total	$ 271	$ (215)	$ 56	$ 42	$ (53)	$ (11)

Impaired investments on a gross basis, including bonds in default, mortgages in the process of foreclosure or in arrears 90 days or more, and real estate acquired by foreclosure, totaled $271 million or 0.29% of portfolio investments at December 31, 2008 compared with $42 million or 0.05% at December 31, 2007. The increase includes investments related to certain issuers in the financial and auto sector, and a large commercial mortgage in the U.K.

The combination of the recognition of other-than-temporary impairment of $215 million ($53 million at December 31, 2007) and the $1,760 million ($1,344 million at December 31, 2007) provision for future credit losses in actuarial liabilities represents 2.3% of bond, mortgage and real estate assets at December 31, 2008 (1.7% at December 31, 2007).

Goodwill and intangible assets

Goodwill and intangible assets have decreased by approximately $1.4 billion from December 31, 2007. Impairment charges recorded in connection with goodwill and intangible assets related to the Putnam acquisition of $2.2 billion were partly offset by currency movement impact of $0.6 billion.

Refer to note 7 to the annual financial statements for further detail. Also refer to the "Critical Accounting Estimates" section of this document for details on impairment testing of these assets.

Other general fund assets

Other general fund assets

	December 31	
	2008	2007
Funds held by ceding insurers	$ 11,447	$ 1,512
Other assets	6,778	5,778
Total other general fund assets	$ 18,225	$ 7,290

Funds held by ceding insurers increased $9.9 billion. The increase in funds held by ceding insurers is mainly due to the Standard Life transaction. Other assets, at $6.8 billion, is made up of several items including premiums in course of collection, future income taxes, interest due and accrued, fixed assets, prepaid amounts, and accounts receivable. The increase in other assets is primarily due to the future income tax asset recorded on the impairment charge of goodwill and intangible assets.

Segregated funds

Segregated funds net assets

	December 31		
	2008	2007	2006
Stocks	$ 49,992	$ 61,861	$ 63,229
Bonds	14,116	14,798	15,891
Mortgages	1,952	1,949	1,915
Real estate	6,744	6,821	5,941
Cash and other	4,944	3,752	3,170
Total	$ 77,748	$ 89,181	$ 90,146
Year over year growth	-13%	-1%	20%

Segregated funds assets under management, which are measured at market values, decreased by $11.4 billion to $77.7 billion at December 31, 2008. The change resulted from net deposits of $3.0 billion and realized and unrealized investment reductions of $14.4 billion. Net market value and investment reductions of $14.4 billion were comprised of market losses of $17.7 billion and a currency translation increase of $3.3 billion.

Proprietary mutual funds and institutional net assets

Proprietary mutual funds and institutional net assets
(excludes Putnam Prime Money Market Funds)

	December 31	
	2008	2007
Mutual funds		
Blend equity	$ 17,275	$ 28,578
Growth equity	10,365	20,960
Equity value	16,637	30,303
Fixed income	22,820	26,392
Money market	208	100
Sub-total	67,305	106,333
Institutional accounts		
Equity	29,376	39,758
Fixed income	34,441	33,071
Sub-total	63,817	72,829
Total proprietary mutual funds and institutional accounts	$131,122	$179,162

Proprietary mutual funds and institutional accounts under management decreased by $48.0 billion primarily as a result of negative asset flows of $16.8 billion, the deterioration of investment market conditions of $56.3 billion partly offset by the positive effect of the weakening of the Canadian dollar against the US dollar of $25.1 billion. At December 31, 2008, proprietary mutual funds and institutional accounts were comprised of $128.9 billion at Putnam and $2.2 billion at Quadrus.

LIABILITIES

Total liabilities

Total liabilities

	December 31	
	2008	2007
Policy liabilities	$102,627	$ 91,872
Deferred net realized gains	161	179
Other general fund liabilities	10,316	11,388
Total liabilities	$113,104	$ 103,439

Total liabilities have increased from $103.4 billion at December 31, 2007 to $113.1 billion at December 31, 2008.

Policy liabilities

Policy liabilities increased 12% from December 31, 2007 to $102.6 billion. Actuarial liabilities are 95% of total policy liabilities.

Actuarial liabilities represent the amounts which, together with estimated future premiums and investment income, will be sufficient to pay estimated future benefits, dividends, and expenses on policies in force. Actuarial liabilities are determined using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries.

Actuarial liabilities increased by approximately $10.4 billion, mainly due to the Standard Life transaction which increased liabilities by $12.5 billion, partly offset by reductions due to changes in the fair value of assets backing actuarial liabilities since January 1, 2008.

Actuarial liabilities in Canada decreased $1.4 billion due mainly to changes in the fair value of assets backing actuarial liabilities since January 1, 2008.

Actuarial liabilities in the United States increased $3.9 billion, due mainly to the weakening of the Canadian dollar.

Actuarial liabilities in Europe increased $7.9 billion mainly due to the Standard Life transaction which increased liabilities by $12.5 billion, partially offset by a reduction due to changes in the fair value of assets backing actuarial liabilities since January 1, 2008.

Assets supporting actuarial liabilities

	Participating	Canada	United States	Europe	Total
December 31, 2008					
Bonds	**$ 13,743**	**$ 11,888**	**$ 9,672**	**$ 16,797**	**$ 52,100**
Mortgage loans	**5,760**	**5,282**	**1,556**	**2,302**	**14,900**
Stocks	**2,512**	**741**	**–**	**152**	**3,405**
Real estate	**257**	**8**	**–**	**1,809**	**2,074**
Other	**7,444**	**1,933**	**2,882**	**13,157**	**25,416**
Total assets	**$ 29,716**	**$ 19,852**	**$ 14,110**	**$ 34,217**	**$ 97,895**
Total actuarial liabilities	**$ 29,716**	**$ 19,852**	**$ 14,110**	**$ 34,217**	**$ 97,895**
December 31, 2007					
Bonds	$ 12,893	$ 12,527	$ 10,163	$ 19,036	$ 54,619
Mortgage loans	5,340	5,386	1,333	1,984	14,043
Stocks	3,383	879	16	183	4,461
Real estate	225	5	–	1,326	1,556
Other	6,784	1,879	487	3,658	12,808
Total assets	$ 28,625	$ 20,676	$ 11,999	$ 26,187	$ 87,487
Total actuarial liabilities	$ 28,625	$ 20,676	$ 11,999	$ 26,187	$ 87,487

Other assets include: loans to policyholders, cash and certificates of deposit, funds held by ceding insurers, premiums in the course of collection, interest due and accrued, future income taxes, fixed assets, prepaid expenses, accounts receivable and accrued pension assets.

Asset and liability cash flows are carefully matched within reasonable limits to minimize the financial effects of a shift in interest rates. This practice has been in effect for several years and has helped shield the Company's financial position from interest rate volatility.

The increase in other assets in Europe was due to the Standard Life transaction partially offset by the decrease in bond values due to widening credit spreads. The increase in the United States was due to currency movement partially offset by market value declines.

For the participating account, other assets of $7.4 billion consists primarily of policy loans.

Other general fund liabilities

Other general fund liabilities

	December 31	
	2008	2007
Debentures and other debt instruments	**$ 3,821**	$ 5,241
Funds held under reinsurance contracts	**192**	164
Repurchase agreements	**334**	344
Other liabilities	**5,969**	5,639
Total other general fund liabilities	**$ 10,316**	$ 11,388

Total other general fund liabilities at December 31, 2008 were $10.3 billion, a decrease of $1.1 billion from December 31, 2007. Other liabilities include trade payables, accruals and provisions for post-retirement benefits.

Debentures and other debt instruments decreased by $1.4 billion.

On December 11, 2008, Canada Life redeemed all $200 million aggregate principal amount of its 5.80% Debentures, Series A.

On March 26, 2008, a subsidiary of Putnam executed a US$200 million revolving credit facility with a Canadian chartered bank and drew US$80 million. The proceeds drawn on the revolving credit facility were used to repay in full a demand promissory note that had been issued on January 24, 2008. The amount outstanding under the revolving credit facility was US$120 million at December 31, 2008.

On June 26, 2008 the Company issued $500 million of 7.127% Subordinated Debentures through an affiliated Delaware Limited Partnership, Great-West Lifeco Finance (Delaware) LP II (GWLP II). The subordinated debentures are due June 26, 2068 and bear an annual interest rate of 7.127% until June 26, 2018. After June 26, 2018, the subordinated debentures will bear a floating rate of interest equal to the three month bankers' acceptance rate plus 3.78%. Subject to a Replacement Capital Covenant, the subordinated debentures may be redeemed by GWLP II at the principal amount plus any accrued and unpaid interest after June 26, 2018.

Also, Putnam Acquisition Financing LLC paid down the US$500 million five year term facility to US$304 million on June 26, 2008. The balance has remained constant to December 31, 2008.

Since December 31, 2007, the Company has repaid, in full, the $1,233 million and US$647 million balances on the Canadian and US dollar short term credit facilities with a Canadian chartered bank. During the first quarter of 2008, the Company repaid C$235 million of the Canadian dollar drawings. On April 18, 2008, the Company repaid $730 million of the Canadian dollar drawings and US$345 million of the US dollar drawings. On June 26, 2008, the Company repaid the remaining C$268 million and US$302 million outstanding on the Canadian and US dollar short term credit facilities.

All other liabilities increased $0.3 billion since December 31, 2007. Derivative liabilities increased by $1.0 billion offset by disposal of liabilities related to the sale of the GWL&A health care business.

Preferred Shares and Capital Trust Securities

Preferred shares other than perpetual preferred shares (which include soft-retractable and fixed/floating shares) and Capital Trust Securities and debentures are classified as liabilities.

Preferred shares

At December 31, 2008 the Company had 7,938,500 4.70% Non-Cumulative First Preferred Shares, Series D and 22,282,215 4.80% Non-Cumulative First Preferred Shares, Series E outstanding with stated values of $199 million and $553 million, respectively.

The terms and conditions of the 4.70% Non-Cumulative First Preferred Shares, Series D and 4.80% Non-Cumulative First Preferred Shares, Series E allow the holder to convert to common shares of the Company after a specified period of time. The Company, at its option, may redeem these shares before the holders are entitled to convert them to common shares of the Company. Preferred shares of this type are commonly referred to as soft-retractable and represent a form of financing with a term that is effectively fixed.

Capital trust securities and debentures

Great-West Life Capital Trust (GWLCT), a trust established by Great-West Life in December 2002, had issued $350 million of capital trust securities, the proceeds of which were used by GWLCT to purchase Great-West Life senior debentures in the amount of $350 million, and Canada Life Capital Trust (CLCT), a trust established by Canada Life in February 2002, had issued $450 million of capital trust securities, the proceeds of which were used by CLCT to purchase Canada Life senior debentures in the amount of $450 million. The main features of the trust units are as follows:

Great-West Life Capital Trust Securities (GREATs) – GWLCT issued $350 million of non-voting GREATs. Each holder of the GREATs is entitled to receive a semi-annual non-cumulative fixed cash distribution of $29.975 per GREATs, representing an annual yield of 5.995%, payable out of GWLCT's net distributable funds. Subject to regulatory approval, GWLCT may redeem the GREATs, in whole or in part, at any time.

Canada Life Capital Trust Securities (CLiCS) – CLCT issued $450 million of non-voting CLiCS consisting of $300 million of non-voting CLiCS – Series A and $150 million of non-voting CLiCS – Series B. Each holder of the CLiCS – Series A and CLiCS – Series B is entitled to receive a semi-annual non-cumulative fixed cash distribution of $33.395 and $37.645 per CLiCS, respectively, representing an annual yield of 6.679% and 7.529%, payable out of CLCT's net distributable funds. Subject to regulatory approval, CLCT may redeem the CLiCS, in whole or in part, at any time.

At December 31, 2008, subsidiaries of the Company held $167 million of these securities as temporary investments ($189 million at December 31, 2007).

Non-Controlling Interests

Non-controlling interests include participating account surplus in subsidiaries and preferred shares issued by subsidiaries to third parties. Refer to note 14 to the Company's financial statements.

Non-controlling interests

	December 31 2008	December 31 2007
Participating account surplus:		
Great-West Life	**$ 417**	$ 411
London Life	**1,549**	1,470
Canada Life	**31**	36
GWL&A	**15**	186
	$ 2,012	$ 2,103
Preferred shares issued by subsidiaries:		
Great-West Life Series O, 5.55% Non-Cumulative	**$ 157**	$ 157
Perpetual preferred shares issued by subsidiaries:		
CLFC Series B, 6.25% Non-Cumulative	**$ 145**	$ 145
Acquisition related fair market value adjustment	**5**	7
	$ 150	$ 152
Non-controlling interests in capital stock and surplus	**$ 13**	$ 10

Share Capital and Surplus

In establishing the appropriate mix of capital required to support the operations of the Company and its subsidiaries, management utilizes a variety of debt, equity and other hybrid instruments giving consideration to both the short and long-term capital needs of the Company.

Share capital outstanding at December 31, 2008 was $7,065 million, which was comprised of $1,099 million of perpetual preferred shares, $230 million of five year rate reset preferred shares, and $5,736 million common shares.

At December 31, 2008, the Company had 943,882,505 common shares outstanding with a stated value of $5,736 million compared to 893,761,639 common shares with a stated value of $4,709 million at December 31, 2007.

At December 31, 2008, the Company had four series of perpetual preferred shares outstanding with an aggregate stated value of $1,099 million.

The terms and conditions of the $199 million, 5.90% Non-Cumulative First Preferred Shares, Series F, the $300 million, 5.20% Non-Cumulative First Preferred Shares, Series G, the $300 million, 4.85% Non-Cumulative First Preferred Shares, Series H and the $300 million, 4.50% Non-Cumulative First Preferred Shares, Series I do not allow the holder to convert to common shares of the Company or otherwise cause the Company to redeem the shares. Preferred shares of this type are commonly

referred to as perpetual and represent a form of financing that does not have a fixed term. The Company, at its option, may redeem the Series F shares on or after September 30, 2008, the Series G shares on or after December 31, 2009, the Series H shares on or after September 30, 2010, and the Series I shares on or after June 30, 2011. The Company regards the Series F shares, the Series G shares, the Series H shares and the Series I shares as comprising part of its core or permanent capital. As such, the Company only intends to redeem the Series F shares, the Series G shares, the Series H shares, or the Series I shares with proceeds raised from new capital instruments issued during the life of the Series F shares, the Series G shares, the Series H shares, or the Series I shares, where the new capital instruments represent equal or greater equity benefit.

In addition, the $230 million of Lifeco Series J First Preferred Shares issued in the fourth quarter of 2008 have a fixed non-cumulative dividend, payable quarterly, of 6.00% per annum during the period March 31, 2009 to but excluding December 31, 2013. On December 31, 2013 and on December 31 every five years thereafter the dividend rate will reset so as to equal the then current five-year Government of Canada bond yield plus 3.07%. Lifeco has the right to redeem the Lifeco Series J First Preferred Shares, in whole or in part, on December 31, 2013 and on December 31 every five years thereafter for $25.00 cash per share plus declared and unpaid dividends. Subject to Lifeco's right of redemption and certain other restrictions on conversion described in Lifeco's articles, each Lifeco Series J First Preferred Share is convertible at the option of the holder on December 31, 2013 and on December 31 every five years thereafter into one Lifeco Series K First Preferred Share, which will carry a floating rate non-cumulative preferential cash dividend, as and when declared by the Board of Directors.

2008 activity

During the twelve months ended December 31, 2008, no common shares were purchased for cancellation pursuant to the Company's Normal Course Issuer Bid. Under the Company's Stock Option Plan, 1,920,866 shares were issued for a total value of $27 million or $13.24 per share.

On December 30, 2008, the Company announced the closing of the offering of 28,920,000 common shares for aggregate proceeds of $600,090,000, and the concurrent closing of its sale to Power Financial Corporation of 19,280,000 common shares by way of private placement for aggregate proceeds of $400,060,000. These two transactions increased common shares by 48,200,000 in total or 5.3%.

On November 27, 2008 the Company issued 9,200,000 6.00% Non-Cumulative first Preferred Shares, Series J (the Series J Preferred Shares) with an aggregate stated value of $230 million.

In November, the Company announced a normal course issuer bid for its common shares commencing December 1, 2008 and ending November 30, 2009. During the course of this bid, the Company may purchase up to but not more than 6,000,000 common shares for cancellation.

During the twelve months ended December 31, 2008, the Company paid dividends of $1.200 per common share for a total of $1,073 million and perpetual preferred share dividends of $57 million.

Unrealized foreign exchange gains on translation of foreign operations increased surplus by $1,196 million since December 31, 2007.

LIQUIDITY AND CAPITAL MANAGEMENT AND ADEQUACY

LIQUIDITY

The Company's liquidity requirements are self-funded, with short term obligations being met by generating internal funds and maintaining adequate levels of liquid investments. At December 31, 2008, Lifeco held cash and liquid short term investments of $5.6 billion including $1.2 billion held directly at the holding company level. In addition, Lifeco and its operating subsidiaries held Canada and United States and foreign government bonds of $19.4 billion.

Funds provided by premiums and fees, investment income and maturities of investment assets are reasonably predictable and normally exceed liquidity requirements for payment of claims, benefits, and expenses. However, since the timing of available funds cannot always be matched precisely to commitments, imbalances may arise when demands for funds exceed those on hand. Also, a demand for funds may arise as a result of the Company taking advantage of current investment opportunities. The sources of the funds that may be required in such situations include bank financing and the issuance of debentures and equity securities. The Company evidenced its ability to raise money in the public markets with a preferred share issue of $230 million and a common share issue of $1.0 billion in the fourth quarter of 2008. The Company also maintains a $200 million committed line of credit with a Canadian chartered bank.

Liquid assets and other marketable securities

	December 31 2008	2007
Liquid assets		
Cash, treasury bills and CDs	$ 5,632	$ 4,314
Government bonds	19,356	19,784
Total liquid assets	24,988	24,098
Other marketable securities		
Corporate bonds	29,496	33,889
Common/Preferred shares (public)	4,373	5,564
Residential mortgages – insured	5,045	4,657
Total	$ 63,902	$ 68,208

Cashable liability characteristics

	December 31 2008	2007
Surrenderable insurance and annuity liabilities		
At market value	$ 11,291	$ 11,208
At book value	29,493	27,289
Total	$ 40,784	$ 38,497

The majority of the liquid assets and other marketable securities are comprised of fixed income securities whose value is inversely related to interest rates. Consequently, a significant rise in prevailing interest rates would result in a decrease in the value of this pool of liquid assets. As well, a high interest rate environment may prompt holders of certain types of policies to terminate their policies, thereby placing demands on the Company's liquidity position.

The carrying value of the Company's liquid assets and other marketable securities is approximately $63.9 billion or 1.6 times the Company's total surrenderable insurance and annuity liabilities. The Company believes that it holds a sufficient amount of liquid assets to meet unanticipated cash flow requirements prior to their maturity.

CASH FLOWS

Cash flows	For the three months ended December 31 2008	2007	For the twelve months ended December 31 2008	2007
Cash flows relating to the following activities:				
Operations	$ 1,431	$ 1,302	$ 3,863	$ 3,731
Financing	733	(302)	(1,554)	2,422
Investment	(2,778)	(239)	(3,292)	(5,201)
	(614)	761	(983)	952
Effects of changes in exchange rates on cash and cash equivalents	131	(62)	157	(359)
Increase (decrease) in cash and cash equivalents in the period	(483)	699	(826)	593
Cash and cash equivalents from continuing and discontinued operations, beginning of period	3,333	2,977	3,676	3,083
Cash and cash equivalents from discontinued operations, end of period	–	(26)	–	(26)
Cash and cash equivalents from continuing operations, end of period	$ 2,850	$ 3,650	$ 2,850	$ 3,650

The principal source of funds for the Company is cash provided by operating activities, including premium income, net investment income and fee income. These funds are used primarily to pay policy benefits, policyholder dividends and claims, as well as operating expenses and commissions. Cash flows generated by operations are mainly invested to support future liability cash requirements. Financing activities include the issuance and repayment of capital instruments, and associated dividends and interest payments.

In the quarter, cash and cash equivalents decreased by $483 million from September 30, 2008. Cash flows provided by operations increased by $129 million compared to 2007. In 2008, cash flows were used by the Company to acquire an additional $2,778 million of investments (an increase of $2,539 million compared to 2007), and $290 million of cash was utilized to pay dividends to the preferred and common shareholders. The Company also repaid $200 million of subordinated debt issued by Canada Life.

The weakening of the Canadian dollar against the US dollar and the euro increased reported cash and cash equivalents by $131 million. The issue of common shares and preferred shares net of issue costs increased cash flows by $1,212 million.

For the twelve months ended December 31, 2008, cash flows provided by operations increased $132 million to $3,863 million compared to 2007. Cash flows from operations were used to acquire an additional $3,292 million of invested assets, offset by cash received from the sale of the health care business of $1,375 million. The Company utilized $1,130 million of cash flows generated from operations and financing activities to pay preferred and common shareholder dividends and repaid $2,278 million in debt. Currency movement since December 31, 2007 increased reported cash and cash equivalents by $157 million. The issue of common shares and preferred shares net of issue costs increased cash flows by $1,212 million.

Commitments/Contractual Obligations

Commitments/Contractual Obligations At December 31, 2008

	Payments due by period						
	Total	1 year	2 years	3 years	4 years	5 years	Over 5 years
1) Long-term debt	$ 3,555	$ 1	$ 1	$ 1	$ 1	$ 1	$ 3,550
2) Operating leases							
– office	585	107	89	71	61	50	207
– equipment	12	6	2	2	2	–	–
3) Purchase obligations	216	73	56	47	27	13	–
4) Credit-related arrangements							
(a) Contractual commitments	337	337	–	–	–	–	–
(b) Letters of credit	SEE NOTE 4(b) BELOW						
5) Pension contributions	81	81	–	–	–	–	–
Total contractual obligations	$ 4,786	$ 605	$ 148	$ 121	$ 91	$ 64	$ 3,757

1) Long-term debt includes long-term financing used in the ongoing operations and capitalization of the Company.

2) Operating leases include office space and certain equipment used in the normal course of business. Lease payments are charged to operations over the period of use.

3) Purchase obligations are commitments to acquire goods and services, essentially related to information services.

4) (a) Contractual commitments are essentially commitments of investment transactions made in the normal course of operations in accordance with policies and guidelines that are to be disbursed upon fulfillment of certain contract conditions.

(b) Letters of credit (LOCs) are written commitments provided by a bank. The total amount of LOCs issued are $2,846 million. Total LOC facilities are $3,375 million.

The Reinsurance operation is from time to time an applicant for letters of credit provided mainly as collateral under certain reinsurance contracts for on-balance sheet policy liabilities. The Company through certain of its subsidiaries has provided LOCs as follows:

To external parties

In order for the non-U.S. licensed operating subsidiaries within LRG to conduct reinsurance business in the U.S., they must provide collateral to the U.S. insurance and reinsurance companies to whom reinsurance is provided in order for these companies to receive statutory credit for reserves ceded to LRG. To satisfy this collateral requirement, LRG, as applicant, has provided LOCs issued by a syndicate of financial institutions under an agreement arranged in 2005 for a five year term expiring November 15, 2010. The aggregate amount of this LOC facility is US$650 million, and the amount issued at December 31, 2008 was US$629 million, including US$239 million issued by LRG subsidiaries to London Life or other LRG subsidiaries, as described below.

To internal parties

GWL&A Financial Inc. as applicant has provided LOCs in respect of the following:

- US$899 million issued to the U.S. branch of Canada Life as beneficiary, to allow it to receive statutory capital credit for reserves ceded to Great-West Life & Annuity Insurance Company of South Carolina. These are provided under a US$1.3 billion agreement with a twenty year term with a third party financial institution. (increased to US$919 million in February, 2009)
- US$70 million issued to Great-West Life & Annuity Insurance Company of South Carolina as beneficiary, to allow it to receive statutory capital credit in respect thereof.

Canada Life as applicant has provided LOCs relating to business activities conducted within the Canada Life group of companies in respect of the following:

- US$525 million issued to its U.S. branch as beneficiary, to allow Canada Life to receive statutory capital credit for life reinsurance liabilities ceded to Canada Life International Re Limited. (decreased to US$515 million in February, 2009)
- £117 million issued to Canada Life Ireland Holdings Limited (CLIHL) as beneficiary, to allow CLIHL to receive statutory capital credit in the United Kingdom for a loan made to The Canada Life Group (UK) Limited.
- US$14 million issued to a U.S. regulator as beneficiary on behalf of its U.S. branch, to receive statutory capital credit for certain reinsurance liabilities ceded to third party non-U.S. licensed reinsurers.

As well, certain LRG subsidiaries as applicants have provided LOCs totaling US$239 million to London Life or other LRG subsidiaries, as beneficiaries to allow them to receive statutory capital credit for reserves ceded to the other subsidiaries.

5) Pension contributions are subject to change, as contribution decisions are affected by many factors including market performance, regulatory requirements and management's ability to change funding policy. Funding estimates beyond 2009 are excluded due to the significant variability in the assumptions required to project the timing of future contributions.

Capital Management and Adequacy

At the holding company level, the Company monitors the amount of consolidated capital available, and the amounts deployed in its various operating subsidiaries. The amount of capital deployed in any particular company or country is dependent upon local regulatory requirements as well as the Company's internal assessment of capital requirements in the context of its operational risks and requirements, and strategic plans.

The Company's practice is to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate.

In Canada, the Office of the Superintendent of Financial Institutions (OSFI) has established a capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the Minimum Continuing Capital and Surplus Requirements (MCCSR). Great-West Life's MCCSR ratio at December 31, 2008 was 210% (205% at the end of 2007). The MCCSR ratio includes no impact from the fourth quarter issuance of preferred and common shares as the proceeds were retained in liquid assets at the holding company level. London Life's MCCSR ratio at December 31, 2008 was 253% (234% at the end of 2007). Canada Life's MCCSR ratio at December 31, 2008 was 214% (226% at the end of 2007).

In the United States, GWL&A is subject to comprehensive state and federal regulation and supervision throughout the United States. The National Association of Insurance Commissioners (NAIC) has adopted risk-based capital rules and other financial ratios for U.S. life insurance companies. GWL&A has estimated the risk-based capital (RBC) ratio to be 406% at December 31, 2008 (586% at the end of 2007), well in excess of that required by NAIC.

The MCCSR position of Great-West Life is negatively affected by the existence of a significant amount of goodwill and intangible assets, which, subject to a prescribed inclusion for a portion of intangible assets in Canada for MCCSR, are deducted in the calculation of available regulatory capital.

The capitalization of the Company and its operating subsidiaries will also take into account the views expressed by the various credit rating agencies that provide financial strength and other ratings to the Company.

The Company is both a user and a provider of reinsurance, including both traditional reinsurance, which is undertaken primarily to mitigate against assumed insurance risks, and financial or finite reinsurance, under which the amount of insurance risk passed to the reinsurer or its reinsureds may be more limited.

The Company has also established policies and procedures designed to identify, measure and report all material risks. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan. The Board of Directors reviews and approves all capital transactions undertaken by management pursuant to the annual capital plan. The capital plan is designed to ensure that the Company maintains adequate capital, taking into account the Company's strategy and business plans.

Ratings

The Company and its major operating subsidiaries continue to hold strong ratings. On May 16, 2008, Dominion Bond Rating Service confirmed the ratings of the Company and its affiliated operating subsidiaries with stable trends. The rating of Lifeco's senior debt was removed from "Under Review with Developing Implications".

Rating agency	Measurement	Lifeco	Great-West	London Life	Canada Life	GWL&A
A.M. Best Company	Financial Strength		A+	A+	A+	A+
Dominion Bond Rating Service	Claims Paying Ability		IC-1	IC-1	IC-1	NR
	Senior Debt	AA (low)				
	Subordinated Debt				AA (low)	
Fitch Ratings	Insurer Financial Strength		AA+	AA+	AA+	AA+
Moody's Investors Service	Insurance Financial Strength		Aa3	Aa3	Aa3	Aa3
Standard & Poor's Ratings Services	Insurer Financial Strength		AA	AA	AA	AA
	Senior Debt	A+				
	Subordinated Debt				AA-	

Financial Instruments and Other Instruments

Financial and other instruments held by the Company include portfolio investments, various derivative financial instruments, and debentures and other debt instruments.

Portfolio investments consist of bonds, stocks, mortgage loans and real estate. Derivatives include Interest Rate Contracts (futures – long, futures – short, swaps, written options, purchased options), Foreign Exchange Contracts (forward contracts, cross currency swaps) and other derivative contracts (equity contracts, credit default swaps).

Debentures and other debt instruments consist of short and long term financings due between one and fifty-eight years.

Financial instrument carrying values currently reflect the illiquidity of the markets and the liquidity premiums embedded in the market pricing methods the Company relies upon.

Fair values for bonds classified as held for trading or available for sale are determined using quoted market prices. Where prices are not quoted in a normally active market, fair values are determined by valuation models primarily using observable market data inputs. Market values for bonds and mortgages classified as loans and receivables are determined by discounting expected future cash flows using current market rates.

The following table summarizes the extent of our use of quoted market prices, valuation models with observable market data inputs and valuation models with significant non-observable market data inputs for our significant financial assets and liabilities carried at fair value December 31, 2008.

Financial assets and liabilities carried at fair value by valuation methodology

	December 31, 2008				
			Valuation Models-		
	Fair Value	Quoted Prices	observable inputs	non-observable inputs	Total
Financial assets					
Held for trading	$ 54,854	93%	5%	2%	100%
Available for sale [1]	6,165	78%	21%	1%	100%
Derivatives	652	–	99%	1%	100%
	$ 61,671				
Financial liabilities					
Preferred shares, Series D & E	752	100%	–	–	100%
Derivatives	1,119	–	100%	–	100%
	$ 1,871				

(1) Excludes private equity classified as available for sale, carried at cost of $891 million.

Fair values for public stocks are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for stocks for which there is no active market are determined by discounting expected future cash flows. Where market value can not be measured reliably, fair value is estimated to be equal to cost. Market values for real estate are determined using independent appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals.

Cash flows of assets supporting actuarial liabilities are matched within reasonable limits. Changes in the fair value of these assets are essentially offset by changes in the fair value of actuarial liabilities. Changes in the fair value of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus over time, in accordance with investment policies. Refer to the "Risk Management and Control Practices" section of this report for a description of the risks and the management of risks related to financial instruments associated with actuarial liabilities.

During the fourth quarter, the Company changed its pricing source for asset-backed securities backed by prime home improvement loans, held by GWL&A, which are monoline wrapped. The Company concluded that an internal model utilizing asset-backed index spread assumptions versus credit default swap spread assumptions utilized by the previous pricing source would result in a better measurement of fair value for securities. The illiquidity in the credit default swap market is driving up the cost of hedging for market participants and driving down the prices of hedgeable assets. Therefore, this cost does not provide appropriate pricing levels for securitized assets with performing collateral under current market conditions. The Company considers trading activity, bid/ask spreads and the availability of market quotes in its determination of whether the market is considered active. The use of internal valuation models did not affect the Company's operations, liquidity or capital resources during the period. Management will monitor the markets for trading activity in these securities or for other observable market inputs to utilize in its model.

There were no major changes to the Company's and its subsidiaries' policies and procedures with respect to the use of derivative instruments in 2008. During the twelve month period ended December 31, 2008, the outstanding notional amount of derivative contracts decreased by $389 million. The exposure to credit risk, which is limited to the current fair value of those instruments which are in a gain position, decreased to $652 million at December 31, 2008 from $973 million at December 31, 2007. For an overview of the use of derivative financial instruments, refer to the note 23 to the 2008 Consolidated Financial Statements.

Risk Management and Control Practices

Insurance companies are in the business of assessing, structuring, pricing and assuming, and managing risk. The types of risks are many and varied, and will be influenced by factors both internal and external to the businesses operated by the insurer. These risks, and the control practices used to manage the risks, may be broadly grouped into four categories:

1. Insurance Risks
2. Investment or Market Risks
3. Operational Risks
4. Other Risks

The risk categories above have been ranked in accordance with the extent to which they would be expected to impact the business on an ongoing basis and, accordingly, would require more active management. It must be noted, however, that items included in the third or fourth categories, such as legal, rating, regulatory or reputational risks, may still represent significant risks notwithstanding the expectation that they may be less likely to be realized or may be of a lesser magnitude.

Insurance Risks

General

By their nature, insurance products involve commitments by the insurer to undertake financial obligations and provide insurance coverage for extended periods of time. In order to provide insurance protection profitably, the insurer must design and price products so that the premiums received, and the investment income earned on those premiums, will be sufficient to pay future claims and expenses associated with the product. This requires the insurer, in pricing products and establishing policy liabilities, to make assumptions regarding expected levels of income and expense. Although pricing on some products is guaranteed throughout the life of the contract, policy liability valuation requires regular updating of assumptions to reflect emerging experience. Ultimate profitability will depend upon how closely actual experience tracks to expected experience.

The Company maintains Corporate Product Design and Pricing Risk Management Policies, Corporate Underwriting and Liability Risk Management Policies, and Corporate Reinsurance Ceded Policies. These three policies are intended to ensure that consistent guidelines and standards for the product design and pricing risk management processes, underwriting and claims management practices, and reinsurance ceded practices associated with insurance business are followed across the Company. These policies outline the requirements of corresponding policies (including approval practices) that each line of business is required to develop, maintain, and follow. Annually the Appointed Actuaries report to the Audit Committees confirming compliance with the policies.

The Company also maintains a Corporate Actuarial Valuation Policy, which sets out the documentation and control standards that are designed to ensure that valuation standards of the Canadian Institute of Actuaries and of the Company are applied uniformly across all lines of business and jurisdictions. Certifying Actuaries confirm their compliance with this policy quarterly.

The following identifies the key overarching insurance risks, and risk management techniques used by the Company.

Claims mortality and morbidity

Risk – Mortality relates to the occurrence of death and morbidity relates to the incidence and duration of disability insurance claims, the incidence of critical conditions for critical illness insurance, and the utilization of health care benefits. There is a risk that the Company misestimates the level of mortality and morbidity, or accepts customers who will display higher levels of mortality and morbidity than expected.

> ***Management of risk*** – Research and analysis is done regularly to provide the basis for pricing and valuation assumptions to properly reflect the insurance and reinsurance markets where the Company is active.
>
> Underwriting limits control the amount of risk exposure.
>
> Underwriting practices control the selection of risks insured for consistency with claims expectations.
>
> Underwriting policies have been developed to support the long-term sustainability of the business. The reserves established to fund future claims include a provision for adverse deviation, set in accordance with professional guidelines. This margin is necessary to provide reasonable assurance that actuarial liabilities cover a range of possible outcomes.
>
> In general, the Company sets and adheres to retention limits for mortality and morbidity risks. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk.
>
> The Company manages large blocks of business which, in aggregate, is expected to result in relatively low statistical fluctuations in any given period.
>
> For some policies, cost of insurance charges could be increased, if required, to contractual maximums if applicable.
>
> Morbidity risk can be reduced through effective plan design and claims adjudication practices.

Concentration

Risk – For Group life products, exposure to a multiple death scenario, due to concentration of risk in employment locations for example, could have an impact on financial results.

> ***Management of risk*** – Risk concentrations are monitored for new business and renewals. Plan design features and medical underwriting limit the amount of insurance on any one life. The Company imposes single event limits on some group plans and declines to quote in localized areas where the aggregate risk is deemed excessive.

Risk – For Group health care products, inflation and utilization will influence the level of claim costs. While inflationary trends are relatively easy to predict, claims utilization is less predictable. The impact of aging, which plays a role in utilization, is well documented. However, the introduction of new services, such as breakthrough drug therapies, has the potential to substantially escalate benefit plan costs.

> ***Management of risk*** – The Company manages the impact of these and similar factors through plan designs that limit new costs and through pricing that takes demographic and other trend factors into account.

Longevity

Risk – Annuitants could live longer than was estimated by the Company.

Management of risk – Business is priced using prudent mortality assumptions which take into account recent Company and industry experience and the latest research on expected future trends in annuitant mortality.

In general, the Company sets and adheres to retention limits for longevity risk. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk.

The Company has processes in place to verify annuitants' eligibility for continued income benefits. These processes are designed to limit annuity payments to those contractually entitled to receive them and helps ensure mortality data used to develop pricing assumptions is as complete as possible.

Policy termination

Risk – Many products are priced and valued to reflect the expected duration of contracts. There is a risk that the contract may be terminated before expenses can be recovered, to the extent that higher costs are incurred in early contract years. Risk also exists where the contract is terminated later than assumed, on certain long-term level premium products where costs increase by age. The risk also includes the potential cost of cash flow mismatch on book value products.

Management of risk – Business is priced using prudent policy termination assumptions which take into account recent Company and industry experience and the latest research on expected future trends. Assumptions are reviewed regularly and are updated for future new issues as necessary.

In general, the Company sets and adheres to retention limits for policy termination risk. Aggregate risk is managed through a combination of reinsurance and capital market solutions to transfer the risk.

The Company also incorporates early surrender charges into contracts and incorporates commission claw backs in its distribution agreements to reduce unrecovered expenses.

Policyholder taxation rules in most jurisdictions encourage the retention of insurance coverage.

Expense management

Risk – Increases in operating expenses could reduce profit margins.

Management of risk – Expense management programs are regularly monitored to control unit costs.

Interest rate pricing and repricing

Risk – Products are priced and valued based on the investment returns available on the assets that support the policy liabilities. If actual investment returns are different than those implicit in the pricing assumptions, actual returns in a given period may be insufficient to cover contractual guarantees and commitments or reserve requirements. Products with long term cash flows and pricing guarantees carry more risk.

Management of risk – There is regular and ongoing communication between pricing, valuation and investment management. Both pricing and valuation manage this risk by requiring higher margins where there is less yield certainty.

The pricing and valuation of death benefit, maturity value and income guarantees associated with variable contracts employ stochastic modeling of future investment returns.

Cash flow matching

Risk – Mismatches between asset and liability cash flows could reduce profit margins in unfavourable interest rate environments.

Management of risk – Margins on non-repriceable products are protected through matching of assets and liabilities within reasonable limits. Margins on repriceable products are protected through frequent monitoring of asset and liability positions. The valuation of both of these product types employ modeling using multiple scenarios of future interest rates, and prudent reserving including provisions for adverse deviations.

Reinsurance acquired

Risk – The reinsurance business in particular has exposure to natural catastrophic events that result in property damage. As retrocessionaire for property catastrophe risk, the Company generally participates at significantly higher event loss exposures than primary carriers and reinsurers. Generally, an event of significant size must occur prior to the Company incurring a claim. If a claim occurs, it is likely to be very large.

Management of risk – The Company limits the total maximum claim amount under all contracts.

The Company monitors cedant companies' claims experience on an ongoing basis and incorporates their experience in pricing models to ensure that the compensation is adequate for the risk undertaken.

Segregated funds guarantees

Risk – A significant decline in market values could increase the cost to the Company associated with segregated fund death benefit and maturity value guarantees.

Management of risk – The Company manages these risks across five product types and utilizes internal reinsurance treaties as risk mitigating tools.

Prudent product design, effective marketing, asset allocation within client portfolios and our broad distribution within Canada, all contribute to a significantly diverse profile of in force segregated funds, issued steadily over many years, which helps to mitigate exposure in Canada to guarantees related to segregated funds.

In the U.S. variable fund guarantees apply only to death benefits, and then only on products sold in certain markets. The valuation of these products employs stochastic modeling of future investment returns.

Investment or Market Risks

The Company acquires and manages asset portfolios to produce risk-adjusted returns in support of policyholder obligations and corporate profitability. The Boards of Directors or the Executive Committees and the Investment Committees of the Boards of Directors of certain principal subsidiaries of Lifeco annually approve Investment and Lending Policies, as well as Investment Procedures and Guidelines. Investments are made in accordance with these investment policies which provide guidance on the mix of assets allowable for each product segment.

A comprehensive report on compliance with these policies and guidelines is presented to the Boards of Directors or Investment Committees annually, and the Internal Audit department conducts an independent review of compliance with investment policies, procedures and guidelines on a periodic basis.

The significant investment or market risks associated with the business are outlined below.

Interest rate risk

Risk – Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change causing a difference in value between the assets and liabilities.

Management of risk – The Company utilizes a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are selected and managed in relation to the liabilities in the segment.

Interest rate risk is managed by investing in assets that are suitable for the products sold.

- For products with fixed and highly predictable benefit payments, investments are made in fixed income assets that closely match the liability product cash flows. Protection against interest rate change is achieved as any change in the fair market value of the assets will be offset by a similar change in the fair market value of the liabilities.
- For products with uncertain timing of benefit payments, investments are made in fixed income assets with cash flows of shorter duration than the anticipated timing of the benefit payments.
- Interest rate swaps are used to manage interest rate risk for term mismatches related to investments backing product liability cash flows.

The risks associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly and appropriate reserves are calculated and held.

Equity market risk

Risk – Given the volatility in equity market values, income in any year may be adversely affected by decreases in market values, notwithstanding the Company's long term expectation of investment returns appropriate for this asset class.

Management of risk – The Company's investment policy guidelines provide for prudent investment in equity markets within clearly defined limits. Exposure to common stocks is managed to provide returns that are consistent with the requirements of the underlying segment.

Risk – Returns from equities backing a portion of the non-adjustable life insurance policy liabilities will be insufficient.

Management of risk – The Investment Policy sets out limits for equity investments. For those used to support non-adjustable policies, the time horizon for such investments is very long term and the policy elements backed by these equities pose little or no liquidity risk. The allowable level of equities has been determined after carefully evaluating tolerance for short-term volatility.

Credit risk

Risk – The risk of loss if debtors, counterparties or intermediaries are unable or unwilling to fulfill their financial obligations.

Management of risk – It is Company policy to acquire only investment-grade assets and minimize undue concentration of assets in any single geographic area, industry and company.

Guidelines specify minimum and maximum limits for each asset class. Credit ratings for bonds are determined by recognized external credit rating agencies and/or internal credit review.

These portfolios are monitored continuously and reviewed regularly with the Boards of Directors or the Investment Committees of the Boards of Directors.

Derivative products are traded with counterparties approved by the Boards of Directors or the Investment Committees of the Boards of Directors. Derivative counterparty credit risk is evaluated quarterly on a current exposure method, using practices that are at least as conservative as those recommended by regulators.

Companies providing reinsurance to the Company are reviewed for financial soundness as part of the ongoing monitoring process.

Liquidity risk

Risk – The risk of loss if insufficient funds are available to meet anticipated operating and financing commitments and unexpected cash demands.

Management of risk – The Company closely manages operating liquidity through cash flow matching of assets and liabilities and maintaining adequate liquidity sources to cover unexpected payments.

Risk – In the normal course of its Reinsurance business, the Company provides Letters of Credit (LOC) to other parties, or beneficiaries. A beneficiary will typically hold an LOC as collateral in order to secure statutory credit for reserves ceded to or amounts due from the Company. The Company may be required to seek collateral alternatives if it was unable to renew existing LOCs at maturity.

Management of risk – Management monitors its use of LOCs on a regular basis, and assesses the ongoing availability of these and alternative forms of operating credit. The Company has contractual rights to reduce the amount of LOC issued to the LOC beneficiaries for certain reinsurance treaties.

Foreign exchange risk

Risk – The Company's revenue, expenses and income denominated in currencies other than the Canadian dollar are subject to fluctuations in the movement of the average Canadian dollar relative to the average of those currencies. Such fluctuations affect financial results. The Company has significant exposures to the U.S. dollar resulting from the operations of GWL&A and Putnam in the United States segment and Reinsurance and to the British pound and the euro resulting from our operations in the United Kingdom, Isle of Man, Ireland and Germany in the Europe segment.

Strengthening or weakening of the Canadian dollar spot rate compared to the U.S. dollar, British pound and euro spot rates also has an effect on our financial condition. In accordance with GAAP, foreign currency translation gains and losses from net investments in self sustaining foreign operations, net of related

hedging activities and tax effects, are recorded in accumulated other comprehensive income within shareholders' equity.

Management of risk – Management, from time to time, utilizes forward foreign currency contracts to mitigate the volatility arising from the movement of rates as they impact the translation of operating results denominated in foreign currency.

The Company uses non-GAAP financial measures such as constant currency calculations to assist in communicating the effect of currency translation fluctuation.

Investments are normally denominated in the same currency as the liabilities supported by those investments.

Foreign currency assets acquired to back liabilities are generally converted back to the currency of the liability using foreign exchange contracts.

A 1% appreciation (depreciation) of the average Canadian dollar compared to the average U.S. dollar, British pound and euro together would decrease (increase) net income from continuing operations before adjustments in 2008 by $11 million.

A 1% appreciation (depreciation) of the Canadian dollar compared to the average U.S. dollar, British pound and euro together would decrease (increase) the unrealized foreign currency translation losses in accumulated other comprehensive income of shareholders' equity by $86 million as at December 31, 2008.

Derivative instruments

Risk – There is a risk of loss if derivatives are used for inappropriate purposes.

Management of risk – Approved policies allow derivatives to only be used to hedge imbalances in asset and liability positions or as substitutes for cash instruments; they are not used for speculative purposes.

The Company's risk management process governing the use of derivative instruments requires that the Company acts only as an end-user of derivative products, not as a market maker.

The use of derivatives may include interest rate, foreign exchange and equity swaps, options, futures and forward contracts, as well as interest rate caps, floors and collars.

Operational Risks

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Following are the significant operational risks associated with the business.

Operational risk

Risk – There is a risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.

Management of risk – The Company manages and mitigates internal operational risks through integrated and complementary policies, procedures, processes and practices. Human Resources hiring, performance evaluation, promotion and compensation practices are designed to attract, retain and develop the skilled personnel required. A comprehensive job evaluation process is in place and training and development programs are supported. Each business area provides training designed for their specific needs and has developed appropriate internal controls. Processes and controls are monitored and refined by the business areas and periodically reviewed by the Company's internal audit staff. Financial reporting processes and controls are further examined by external auditors. The Company applies a robust project management discipline to all significant initiatives.

Appropriate security measures protect premises and information. The Company has emergency procedures in place for short term incidents or outages and is committed to maintaining business continuity and disaster recovery plans in every business location for the recovery of critical functions in the event of a disaster, which include offsite backup data storage and work area facilities.

Changes in managed asset values

Risk – The Company's investment fund businesses are fee-based, with revenue and profitability based on the market value of investment fund assets under management. Accordingly, fee income derived in connection with the management of investment funds generally increases or decreases in direct relationship with changes of assets under management which is affected by prevailing market conditions, and the inflow and outflow of new client assets (including purchases and redemptions). Factors that could cause assets under management and revenues to decline include declines in equity markets, changes in fixed-income markets, changes in interest rates and defaults, redemptions and other withdrawals, political and other economic risks, changing investment trends and relative investment performance. The risk is that our fees may vary but our expenses and recovery of initial expenses are relatively fixed, and market conditions may cause a shift in asset mix potentially resulting in a change in revenue and income.

Management of risk – Through its wide range of funds, the Company seeks to limit its risk exposure to any particular market. In its Canadian segregated fund business, the Company encourages its clients to follow a diversified long-term asset allocation approach to reduce the variability of returns and the frequency of fund switching. As a result of this approach, a significant proportion of individual segregated fund assets are in holdings of either a diversified group of funds or "fund of funds" investment profiles, which are designed to improve the likelihood of achieving optimal returns within a given level of risk.

The investment process for assets under management is primarily based upon fundamental research with quantitative research and risk management support. Fundamental research includes valuation analysis, economic, political, industry and company research, company visits, and the utilization of such sources as company public records and activities, management interviews, company-prepared information, and other publicly available information, as well as analyses of suppliers, customers and competitors. Quantitative analysis includes the analysis of past trends and the use of sophisticated financial modeling to gauge how particular securities may perform. Putnam's risk-management capability analyzes securities across all the Putnam Funds and other portfolios to identify areas of over-concentration and other potential risks.

In some cases the Company charges fees that are not related to assets but are based on premiums or other metrics.

Staff recruitment/retention

Risk – The Company is highly dependent on its ability to attract, retain and motivate highly skilled, and often highly specialized, personnel including portfolio managers, research analysts, financial advisors, traders, sales and management personnel and executive officers. The market for these professionals is extremely competitive and is increasingly characterized by the frequent movement of portfolio managers, analysts and salespersons among different firms. The loss of the services of key personnel or failure to attract replacement or additional qualified personnel could negatively affect financial performance. Failure to offer or maintain competitive compensation packages may result in increased levels of turnover among these professionals. Any increase in compensation to attract or retain key personnel could result in a decrease in net income. Departures of key personnel could lead to the loss of clients, which could have an adverse effect on results of operations and financial condition.

> ***Management of risk*** – The Company uses external consultants to obtain benchmark compensation data and works closely with the Board of Directors to develop competitive compensation packages for key personnel.
>
> The Company also uses incentive based compensation instruments such as share grants of Putnam and Lifeco share options to retain and attract key personnel. Compensation of this type generally links the performance of the Company and an employee's ultimate compensation.

Contract termination

Risk – The retirement and investment services and asset and wealth management businesses derive substantially all of their revenue and net income from investment advisory agreements and service agreements with mutual funds and from other investment products. The contracts are terminable on relatively short notice without cause and management and distribution fees must be approved annually. The termination of, or failure to renew, one or more of these agreements or the reduction of the fee rates applicable to such agreements, could have a material effect on the Company's revenues and profits.

> ***Management of risk*** – The Company devotes substantial resources to the investment management process and seeks to achieve consistent, dependable and superior performance results over time for all client portfolios. Assets under management are spread across a wide range of investment objectives, which creates diversity in the product lines.
>
> The Company's exposure to the segregated and mutual funds is spread across many individual funds. Considerable resources are devoted to maintaining a strong relationship with the Plan trustees or other applicable fiduciaries of the funds under the relevant agreements. Company representatives meet frequently with the various committees, Plan trustees and other fiduciaries (for Putnam, at least eleven times each year) to fulfill legal reporting requirements, keep them apprised of business developments, renegotiate contracts and/or address any issues they may have.

Access to distribution

Risk – The Company's ability to market its products is significantly dependent on its access to a client base of individual, corporate and public employee pension funds, defined contribution plan administrators, endowment funds, domestic and foreign institutions and governments, insurance companies, securities firms, brokers, banks, and other intermediaries. These intermediaries generally offer their clients products in addition to, and in competition with, the Company's products, and are not obligated to continue working with the Company. In addition, certain investors rely on consultants to advise them on the choice of adviser and consultants may not always consider or recommend the Company. The loss of access to a distribution channel, the failure to maintain effective relationships with intermediaries, or the failure to respond to changes in distribution channels could have a significant impact on the Company's ability to generate sales.

> ***Management of risk*** – The Company has a broad network of distribution relationships. Products are distributed through numerous broker-dealers, MGA's, financial planners and other financial institutions. In addition, Putnam has several strategic alliances with investment management firms internationally. Putnam relies on its extensive global distribution group to market the Putnam Funds and other investment products across all major retail, institutional and retirement plan distribution channels.

Holding company structure

Risk – As a holding company, the Company's ability to pay interest, dividends and other operating expenses and to meet its obligations generally depends upon receipt of sufficient funds from its principal subsidiaries and its ability to raise additional capital. In the event of the bankruptcy, liquidation or reorganization of any of these subsidiaries, policy liabilities of these subsidiaries will be completely provided for before any assets of such subsidiaries are made available for distribution to the Company; in addition, the other creditors of these subsidiaries will generally be entitled to the payment of their claims before any assets are made available for distribution to the Company except to the extent that the Company is recognized as a creditor of the relevant subsidiaries.

The payment of interest and dividends by the principal subsidiaries is subject to restrictions set forth in relevant insurance, corporate and other laws and regulations which require that solvency and capital standards be maintained by Great-West Life, London Life, CLFC, Canada Life, GWL&A and certain subsidiaries of Putnam.

> ***Management of risk*** – Management closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company. Additional liquidity is available through established lines of credit and the Company's demonstrated ability to access capital markets for funds. The Company maintains a $200 million committed line of credit with a Canadian chartered bank.

OTHER RISKS

Other risks not specifically identified elsewhere, include:

RATINGS

Risk – Financial strength, claims paying ability ratings and ratings related to the issuance of financial instruments represent the opinions of rating agencies regarding the financial ability of Lifeco and its principal subsidiaries to meet its obligations, and are an important factor in establishing the competitive position of life insurance companies and affect financing costs. Rating organizations regularly analyze the financial performance and condition of insurers, including the Company's subsidiaries. Any ratings downgrades, or the potential for such downgrades, of the Company's subsidiaries could increase surrender levels of their insurance and annuity products and adversely affect our ability to market and distribute products and services, and hurt our relationships with creditors, which may have an adverse effect on the Company's business, financial condition and results of operations. These ratings represent an important consideration in maintaining customer confidence in the Company's subsidiaries and in their ability to market insurance and annuity products.

> ***Management of risk*** – The Company strives to manage to a target credit rating by diligently monitoring the evolution of the rating criteria and processes of the various rating agencies.

FUTURE ACQUISITIONS

Risk – From time to time, Lifeco and its subsidiaries evaluate existing companies, businesses, products and services, and such review could result in Lifeco or its subsidiaries disposing of or acquiring businesses or offering new, or discontinuing existing products and services. In the ordinary course of their operations the Company and its subsidiaries consider and discuss with third parties the purchase or sale of companies, businesses or business segments. If effected, such transactions could be material to the Company in size or scope, and could result in changes in the value of the securities of Lifeco, including the common shares of Lifeco.

> ***Management of risk*** – Lifeco undergoes extensive due diligence upon any consideration of acquiring or disposing of businesses or companies or offering new, or discontinuing existing products and services.

LEGAL AND REGULATORY RISK

Risk – The businesses of certain of Lifeco's principal subsidiaries are subject to various legal and regulatory requirements imposed by common and civil law, legislation and regulation in Canada, the United States, the United Kingdom and other jurisdictions applicable to insurance companies and companies providing investment management and other financial services. These requirements are primarily intended to protect policyholders, beneficiaries and investment advisory clients, not shareholders. Material changes in the legal or regulatory framework or the failure to comply with legal and regulatory requirements, which in turn could lead to financial sanctions or penalties and damage to the Company's reputation, could have a material adverse effect on the Company. As well, regulatory capital requirements influence the amount of capital that is held in a particular jurisdiction and constrains the movement of capital from jurisdiction to jurisdiction.

The Company and its subsidiaries are regularly involved in litigation, both as plaintiff and defendant, which could unfavourably impact the Company's financial position and/or reputation.

> ***Management of risk*** – The Company monitors compliance with the legal and regulatory requirements in all jurisdictions where it conducts business and assesses trends in legal and regulatory change to keep business areas current and responsive.
>
> The risk of legal actions is managed through the various risk management and control practices described in this "Risk Management and Control Practices" section of this MD&A.

REPUTATIONAL RISK

Risk – In the course of its business activities, the Company may be exposed to the risk that some actions may lead to damage to the Company's reputation and hence damage to its future business prospects.

These actions may include unauthorized activities of employees or other people associated with the Company, inadvertent actions of the Company that become publicized and damage the Company's reputation, regular or past business activities of the Company that become the subject of regulator or media scrutiny and, due to a change of public perception, cause damage to the Company, or any other action or activity that gives rise to damage to the Company's general reputation.

> ***Management of risk*** – The Company has ongoing controls to limit the unauthorized activities of people associated with the Company. The Company has adopted a Code of Business Conduct and Ethics which sets out the standards of business conduct to be followed by all directors, officers and employees of the Company. Further, the directors, officers and employees are required to sign-off on their compliance with the Code of Business Conduct and Ethics annually. The Company also reacts to address situations that may escalate to a level that might give rise to damage to its reputation.

REINSURANCE

Risk – Through its subsidiaries, the Company is both a user and a provider of reinsurance, including both traditional reinsurance, which is undertaken primarily to mitigate against assumed insurance risks, and financial or finite reinsurance, under which the amount of insurance risk passed to the reinsurer or its reinsureds may be more limited.

The Company, through its reinsurance operating entities, has been approached by certain regulatory and enforcement agencies to provide information relating to their investigation of certain third party reinsurance cedants. Neither the Company nor its subsidiaries are the subject of these investigations.

> ***Management of risk*** – The Company accounts for all reinsurance transactions in accordance with GAAP. In some cases GAAP may differ from the accounting treatment utilized by the Company's reinsurers or its reinsureds based upon the rules applicable to them in their reporting jurisdictions. The Company believes that reinsurance transactions that it has entered into are appropriate and properly accounted for by the Company. Notwithstanding, the Company may, in connection with this type of reinsurance, be exposed to reputation or other risks depending on future events.

Support systems and customer service functions

Risk – The ability to consistently and reliably obtain securities pricing information, process client transactions and provide reports and other customer services is essential to the Company's operations. A failure of any of these systems could have an adverse effect on the Company's results of operations and financial condition. In addition, any delays or inaccuracies in obtaining pricing information, processing client transactions or providing reports, in addition to any inadequacies in other customer service could lead to loss of client confidence, harm to the Company's reputation, exposure to disciplinary action, and liability to the Company's clients. As part of normal operations, the Company maintains and transmits confidential information about its clients and proprietary information relating to its business operations. The Company could be subject to losses if it fails to properly safeguard sensitive and confidential information.

> *Management of risk* – The Company's operations work with its systems and service providers to obtain reliability and efficiency of information systems. The Company utilizes high quality external systems and maintains controls relating to information security and also works with service providers to verify and assess the sufficiency of their controls.

Environmental risk

Risk – Environmental risk is the risk of direct or indirect loss to the Company's financial results or operations or reputation resulting from the impact of environmental issues or costs associated with changes in environmental laws and regulations.

> *Management of risk* – The Company endeavors to respect the environment and to take a balanced and environmentally sustainable approach to conducting business.

Socially responsible investing represents a method of investment that promotes a higher level of environmental sustainability, social responsibility and corporate governance. The Company will not knowingly acquire investments with significant environmental risks. The Company has established environmental policies and guidelines pertaining to the acquisition and ongoing management of real estate properties, loans secured by real property and investments in equity and fixed income securities. These policies are approved by its board of directors and are reviewed annually.

One of the Company's subsidiaries, GWL Realty Advisors Inc. (GWLRA) has an Environmental Management Plan (EMP) to oversee environmental matters on properties owned by the Company (Great-West Life, London Life and Canada Life) and third party clients. The properties for which GWLRA provides property management services are administered under the EMP to ensure compliance with applicable federal, provincial and municipal environmental legislation and by-laws. Under the EMP, the Company has established a program of measuring greenhouse gas emissions for the majority of its office properties across Canada. The monitoring and measurement of environmental performance is carried out by a third party environmental consultant.

The Company's property management and leasing functions are conducted in accordance with environmental laws and prudent industry practices and the Company strives to reduce its environmental footprint through energy conservation and waste reduction that entails recycling programs, periodic waste diversion audits and performance benchmarking.

The Company monitors relevant emerging issues, regulations and requirements and through the GWLRA Environmental Committee makes necessary adjustments to established policies and guidelines.

Summary of Critical Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in Canada requires management to adopt accounting policies and to make estimates and assumptions that affect amounts reported in the Consolidated Financial Statements. The major accounting policies and related critical accounting estimates underlying the Company's financial statements are summarized below. In applying these policies, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies are common in the insurance and other financial services industries; others are specific to the Company's businesses and operations. The significant accounting estimates are as follows:

Fair value measurement

Financial instrument carrying values necessarily reflect the prevailing market liquidity and the liquidity premiums embedded in the market pricing methods the Company relies upon.

Fair values for bonds classified as held for trading or available for sale are determined using quoted market prices. Where prices are not quoted in a normally active market, fair values are determined by valuation models primarily using observable market data inputs. Market values for bonds and mortgages classified as loans and receivables are determined by discounting expected future cash flows using current market rates.

Fair values for public stocks are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for stocks for which there is no active market are determined by discounting expected future cash flows based on expected dividends and where market value can not be measured reliably, fair value is estimated to be equal to cost. Market values for real estate are determined using independent appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals.

During the fourth quarter, the Company changed its pricing methodology for monoline wrapped, asset-backed securities backed by prime home improvement loans which are held by its U.S. subsidiary GWL&A. The Company concluded that an internal model utilizing asset-backed index spreads versus an external pricing source utilizing credit default swap spread assumptions, would result in a better measurement of fair value for securities. Utilizing internal models for these securities, which have a fair market value of $454 million, resulted in a decrease to unrealized losses in the amount of $157 million when compared to the external pricing source. The use of internal valuation models did not affect the Company's operations, liquidity or capital resources during the period.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. The results of the Company reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions.

Impairment

Investments are reviewed regularly on an individual basis to determine impairment status. The Company considers various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults and delinquency in payments of interest or principal. Investments are deemed to have an other than temporary impairment when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due or the Company does not have the intent to hold the investment until the value has recovered. The market value of an investment is not by itself a definitive indicator of impairment, as it may be significantly influenced by other factors including the remaining term to maturity and liquidity of the asset. However, market price must be taken into consideration when evaluating other than temporary impairment.

For impaired mortgages and bonds classified as loans and receivables, provisions are established or write-offs are made to adjust the carrying value to the net realizable amount. Wherever possible, the fair value of collateral underlying the loans or observable market price is used to establish net realizable value. For impaired available for sale loans, recorded at fair value, the accumulated loss recorded in accumulated other comprehensive income is reclassified to net investment income. Once an impairment loss on an available for sale asset is recorded to income, it is not reversed. All gains and losses on bonds classified or designated as held for trading are already recorded in income. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed.

Current market conditions have resulted in an increase in the inherent risks of future impairment of invested assets. The Company monitors economic conditions closely in its assessment of "other-than-temporary" impairment of individual loans.

Goodwill and intangibles impairment testing

Under GAAP, goodwill is not amortized, but is instead assessed for impairment at the reporting unit level by applying a two-step fair value-based test annually, or more frequently, if an event or change in circumstances indicates that the asset might be impaired. In the first test, goodwill is assessed for impairment by determining whether the fair value of the reporting unit to which the goodwill is associated is less than its carrying value. When the fair value of the reporting unit is less than its carrying value, the second test compares the fair value of the goodwill in that reporting unit (determined as a residual value after determining the fair value of the assets and liabilities of the reporting unit) to its carrying value. If the fair value of goodwill is less than its carrying value, goodwill is considered to be impaired and a charge for impairment is recognized immediately.

For purposes of impairment testing, the fair values of the reporting units are derived from internally developed valuation models using a market or income approach consistent with models used when the business was acquired. Under a market approach, the models consider various factors, including normalized earnings, projected forward earnings, and market multiples such as price earnings ratios, enterprise value to assets under management and price to book multiples. Under the income approach, we estimate the discounted future cash flows for a discrete period, usually three to five years, and a terminal value for each of the reporting units. The future cash flows are based on our best estimates of many inputs, most notably future revenues, cash expenses and taxes, as well as working capital changes over time and capital expenditures. Consideration is also given to economic conditions, and general outlook for the industry and markets in which the reporting unit operates. The discount rates used are based on an industry weighted cost of capital and considers the risk free rate, market equity risk premium, size premium and operational risk premium for possible variations from projections. The terminal value is the value attributed to the reporting unit's operations beyond the discrete projected period using a perpetuity growth rate based on industry, revenue and operating income trends and growth prospects. Where possible, fair values generated internally are compared to market information.

Acquired intangible assets are separately recognized if the benefits of the intangible assets are obtained through contractual or other legal rights, or if the intangible assets can be sold, transferred, licensed, rented, or exchanged.

Intangible assets can have a finite life or an indefinite life. Determining the useful lives of intangible assets requires judgment and fact-based analysis.

Intangible assets with an indefinite life are not amortized and are assessed for impairment annually or more frequently if an event or change in circumstances indicates that the asset might be impaired. Similar to goodwill impairment testing, the fair value of the indefinite life intangible asset is compared to its carrying value to determine impairment, if any.

Intangible assets with a finite life are amortized over their estimated useful lives. These assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. In performing the review for recoverability, the future cash flows expected to result from the use of the asset and its eventual disposition are estimated. If the sum of the expected future undiscounted cash flows is less than the carrying value of the asset, an impairment loss is recognized to the extent that fair value is less than the carrying value. Amortization estimates and methods are also reviewed. Indicators of impairment include such things as a significant adverse change in legal factors or in the general business climate, a decline in operating performance indicators, a significant change in competition, or an expectation that significant assets will be sold or otherwise disposed of.

The fair value of intangible assets for customer contracts, the Shareholder portion of acquired future Participating account profits and certain property leases are estimated using an income approach as described for goodwill above. The fair value of brands and trademarks are estimated using a relief-from-royalty approach using the present value of expected after-tax royalty cash flows through licencing agreements. The key assumptions under this valuation approach are royalty rates, expected future revenues and discount rates. The fair value of intangible assets for distribution channels and technology are estimated using the replacement cost approach. Management estimates the time and cost of personnel required to duplicate the asset acquired.

Actuarial liabilities

Actuarial liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with the Company. The Appointed Actuaries of the Company's subsidiary companies are responsible for determining

the amount of the actuarial liabilities to make appropriate provision for the Company's obligations to policyholders. The Appointed Actuaries determine the actuarial liabilities using generally accepted actuarial practices, according to the standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method (CALM). This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment.

In the computation of actuarial liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses and rates of policy termination. The valuation assumptions use best estimates of future experience together with a margin for misestimation and experience deterioration. These margins have been set in accordance with guidelines established by the Canadian Institute of Actuaries and are necessary to provide reasonable assurance that actuarial liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

The methods for arriving at these valuation assumptions are outlined below:

Mortality – A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update the Company's experience valuation mortality tables for that business. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. Although mortality improvements have been observed for many years, for life insurance valuation the mortality provisions (including margin) do not allow for future improvements. *A 1% increase in the best estimate assumption would increase non-participating actuarial liabilities by approximately $108 million.*

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants. *A 1% decrease in the best estimate assumption would increase non-participating actuarial liabilities by approximately $129 million.*

Morbidity – The Company uses industry developed experience tables modified to reflect emerging company experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation. *For products for which morbidity is a significant assumption a 1% adverse change in the best estimate assumption would increase non-participating actuarial liabilities by approximately $60 million.*

Property and casualty reinsurance – Actuarial liabilities for property and casualty reinsurance written by LRG, a subsidiary of London Life, are determined using accepted actuarial practices for life insurers in Canada. Reflecting the long-term nature of the business, reserves have been established using cash flow valuation techniques including discounting. The reserves are based on cession statements provided by ceding companies. In certain instances, LRG management adjusts cession statement amounts to reflect management's interpretation of the treaty. Differences will be resolved via audits and other loss mitigation activities. In addition, reserves also include an amount for incurred but not reported losses (IBNR), which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated and adjustments to estimates are reflected in income. LRG analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in depth analysis is undertaken of the cedant experience.

Investment returns – The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in the Canadian Asset Liability Method (CALM) to determine actuarial liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk.

One way of measuring the interest rate risk associated with this assumption is to determine the effect on the present value of the projected net asset and liability cash flows of the non-participating business of the Company of an immediate and permanent 1% increase or 1% decrease in interest rates at each future duration. These interest rate changes will impact the projected cash flows.

- *The effect of an immediate and permanent 1% increase in interest rates at each future duration would be to decrease the present value of these net projected cash flows by approximately $31 million.*
- *The effect of an immediate and permanent 1% decrease in interest rates at each future duration would be to decrease the present value of these net projected cash flows by approximately $149 million.*

The level of actuarial liabilities established under CALM valuation provides for interest rate movements significantly greater than the 1% shifts shown above.

In addition to interest rates, the Company is also exposed to movements in equity markets.

Some policy liabilities are supported by equities, for example segregated fund products and products with long-tail liabilities. Generally these liabilities will fluctuate in line with equity market values. There will be additional impacts on these liabilities as equity market values fluctuate. A 10% increase in equity markets would be expected to additionally decrease non-participating actuarial liabilities by approximately $42 million. A 10% decrease in equity markets would be expected to additionally increase non-participating actuarial liabilities by approximately $245 million. Given the declines in the equity markets over the last half of 2008, more of the guarantees provided under our segregated fund products are "in-the-money".

Expenses – Unit expense studies are updated regularly to determine an appropriate estimate of future expenses for the liability type being valued. Expense improvements are not projected. An inflation assumption is incorporated in the estimate of future expenses consistent with the interest rate scenarios projected under CALM. *A 10% increase in the best estimate maintenance unit expense assumption Company wide would increase the non-participating actuarial liabilities by approximately $158 million.*

Policy termination – Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where the Company has no experience with specific types of policies or its exposure is limited. *A 10% adverse change in the best estimate policy termination assumption would increase non-participating actuarial liabilities by approximately $345 million.*

Policyholder dividends – Future policyholder dividends are included in the determination of actuarial liabilities for participating policies, with the assumption that policyholder dividends will change in the future to reflect the experience of the respective participating accounts, consistent with the participating policyholder dividend policies. It is our expectation that associated with changes in the best estimate assumptions for participating business would be corresponding changes in policyholder dividend scales that would not result in a material net change in actuarial liabilities for participating business.

Income taxes – As multinational life insurance companies, the Company's primary Canadian operating subsidiaries are subject to a regime of specialized rules prescribed under the Income Tax Act (Canada) for purposes of determining the amount of the companies' income that will be subject to tax in Canada. Accordingly, the determination of the companies' provision for income taxes involves the application of these complex rules in respect of which alternative interpretations may arise.

Management recognizes that interpretations it may make in connection with its tax filings may ultimately differ from those made by the tax authorities and accounts for these potential differences in its financial statements. Upon resolution of any such differences, amounts provided by management may be recognized in earnings to reflect actual experience.

The Company has substantial future income tax assets. The recognition of future tax assets depends on management's assumption that future earnings will be sufficient to realize the deferred benefit. The amount of the asset recorded is based on management's best estimate of the timing of the reversal of the asset.

Employee future benefits – The Company's subsidiaries maintain contributory and non-contributory defined benefit and defined contribution pension plans for certain employees and advisors. The defined benefit pension plans provide pensions based on length of service and final average pay. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. The defined contribution pension plans provide pension benefits based on accumulated employee and Company contributions. The Company's subsidiaries also provide post-retirement health, dental and life insurance benefits to eligible employees, advisors and their dependents. For further information on the Company's pension plans and other post-retirement benefits refer to note 18 to the 2008 Consolidated Financial Statements.

Accounting for pension and other post-retirement benefits requires estimates of future returns on plan assets, expected increases in compensation levels, trends in health care costs, as well as the appropriate discount rate for accrued benefit obligations. These assumptions are determined by management using actuarial methods and are reviewed and approved annually. Emerging experience, different from the assumptions, will be revealed in future valuations and will affect the future financial position of the plans and net periodic benefit costs.

Significant assumptions – employee future benefits At December 31

	Defined benefit pension plans		Other post-retirement benefits	
	2008	2007	**2008**	2007
Weighted average assumptions used to determine benefit cost				
Discount rate	**5.9%**	5.1%	**5.8%**	5.1%
Expected long-term rate of return on plan assets	**6.6%**	6.7%	**–**	–
Rate of compensation increase	**4.2%**	4.1%	**4.2%**	4.2%
Weighted average assumptions used to determine accrued benefit obligation				
Discount rate	**6.8%**	5.9%	**7.1%**	5.8%
Rate of compensation increase	**4.2%**	4.2%	**3.9%**	4.2%

Significant assumptions – The discount rate assumption used in determining pension and post-retirement benefit obligations and net benefit expense reflects the market yields, as of the measurement date, on high-quality debt instruments with cash flows that match expected benefit payments.

The expected rate of return on the plan assets assumption is based on expected returns for the various asset classes, weighted by portfolio allocation. Anticipated future long-term performance of individual asset categories is considered, reflecting expected future inflation and expected real yields on fixed-income securities and equities. Other assumptions are based on actual plan experience and our best estimates.

As these assumptions relate to factors that are long term in nature, they are subject to a degree of uncertainty. Differences between actual experience and the assumptions, as well as changes in the assumptions resulting from changes in future expectations, result in increases or decreases in the pension and post-retirement benefits expense in future years. There is no assurance that the plans will be able to earn assumed rates of return, and market driven changes to assumptions could impact future contributions and expenses.

The following table indicates the impact of changes to certain key assumptions related to pension and post-retirement benefits.

Impact of a change of 0.5% in significant assumptions

	Pension plan		Post-retirement	
	Obligation	Expense	Obligation	Expense
Discount rate				
Increase	$ (156)	$ (6)	$ (15)	$ –
Decrease	174	6	16	–
Expected long-term rate of return on plan assets				
Increase	n/a	(15)	n/a	n/a
Decrease	n/a	15	n/a	n/a
Rate of compensation increase				
Increase	26	5	–	–
Decrease	(24)	(5)	–	–

Funding – The Company's pension plans are funded to or above the amounts required by relevant legislation. During the year, the Company contributed $98 million ($47 million in 2007) to the pension plans. The principal post-retirement and other post-retirement benefit plans are unfunded. The Company funds benefit payments for these plans as incurred. During the year, these benefit payments totaled $16 million ($16 million in 2007).

Accounting Policies

Capital Disclosures – Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures*. The section establishes standards for disclosing information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The new requirements are for disclosure only and did not impact the financial results of the Company.

Financial Instrument Disclosure and Presentation – Effective January 1, 2008, the Company adopted the CICA Handbook Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. These sections replace existing Section 3861, *Financial Instruments – Disclosure and Presentation*. Presentation standards are carried forward unchanged. Disclosure standards are enhanced and expanded to complement the changes in accounting policy adopted in accordance with Section 3855, *Financial Instruments – Recognition and Measurement* during 2007.

Future Accounting Policies

International Financial Reporting Standards – In February 2008, the CICA announced that GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. Although the CICA will permit early adoption of IFRS, Federally Regulated Financial Institutions have been precluded from early adoption by OSFI. The Company will be required to begin reporting under IFRS for the quarter ending March 31, 2011 and will be required to prepare an opening balance sheet and provide information that conforms to IFRS for comparative periods presented.

The Company has developed an IFRS changeover plan which will address key areas such as accounting policies, financial reporting, disclosure controls and procedures, information systems, education and training and other business activities.

The Company, as part of the changeover plan, is currently identifying differences in accounting policies on an ongoing basis and with respect to certain choices to effect conversion in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards. The Company has completed the diagnostic phase of the plan, which has initially identified the following accounting differences that may potentially have a significant impact:

- First-time adoption of IFRS
- Insurance accounting
- Consolidation / business combinations / goodwill and intangibles
- Financial statement preparation, presentation, and disclosure

The Company acknowledges that the above list is not exhaustive of all possible significant items that will occur upon the transition to IFRS. The impact on the Company's information technology, data systems and processes will be dependent upon the magnitude of change resulting from these and other items.

The Company is monitoring the potential impact of changes to financial reporting processes, disclosure controls and procedures, and internal controls over financial reporting. The Company has not yet quantified the effects of the potential significant differences between IFRS and GAAP which may or may not be material. As the implications of the conversion are identified, continual requirements for infrastructure, expertise, training and education will be assessed. The Company will continue to assess the impact of adopting IFRS, and will update its MD&A disclosures quarterly to report on the progress of its IFRS changeover plan.

Goodwill and Intangible Assets – Effective January 1, 2009, the Company will adopt the CICA Handbook Section 3064, *Goodwill and Intangible Assets*. This section replaces existing Section 3062, *Goodwill and Other intangible assets*, and Section 3450, *Research and Development Costs*. This section establishes new standards for the recognition and measurement of intangible assets, but does not affect the accounting for goodwill. The Company does not anticipate that this standard will have a material impact to the financial results of the Company.

SEGMENTED OPERATING RESULTS

The consolidated operating results of Lifeco include the operating results of Great-West Life, London Life, Canada Life, GWL&A, and commencing August 3, 2007, Putnam.

For reporting purposes, the consolidated operating results are grouped into four reportable segments, Canada, United States, Europe, and Lifeco Corporate reflecting geographic lines as well as the management and corporate structure of the companies.

CANADA

The Canadian segment of Lifeco includes the operating results of the Canadian businesses operated by Great-West Life, London Life, and Canada Life. There are two primary business units included in this segment. Through its Individual Insurance and Investment Products (IIIP) business unit, the Company provides life, disability and critical illness insurance products to individual clients, as well as accumulation products and annuity products for both group and individual clients in Canada. Through its Group Insurance business unit, the Company provides life, health, critical illness, disability and creditor insurance products to group clients in Canada.

Selected consolidated financial information – Canada

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Premiums and deposits	**$ 4,368**	$ 5,991	-27%	**$ 17,581**	$ 18,825	-7%
Sales	**1,967**	2,328	-16%	**8,115**	9,400	-14%
Fee and other income	**230**	266	-14%	**1,034**	1,029	–
Paid or credited to policyholders	**1,510**	3,673	-59%	**5,748**	8,397	-32%
Net income – common shareholders	**228**	246	-7%	**1,003**	973	3%
Total assets				**$ 53,174**	$ 52,477	1%
Segregated funds net assets				**38,070**	45,932	-17%
Proprietary mutual funds net assets				**2,172**	2,432	-11%
Total assets under administration				**$ 93,416**	$ 100,841	-7%

Net income – common shareholders

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
IIIP	**$ 120**	$ 169	-29%	**$ 673**	$ 637	6%
Group Insurance	**96**	103	-7%	**391**	384	2%
Corporate	**12**	(26)	–	**(61)**	(48)	–
	$ 228	$ 246	-7%	**$ 1,003**	$ 973	3%

BUSINESS UNITS – CANADA

INDIVIDUAL INSURANCE & INVESTMENT PRODUCTS

BUSINESS PROFILE

In Canada, IIIP consists of four business lines: Individual Life Insurance, Living Benefits, Individual Retirement & Investment Services (IRIS) and Group Retirement Services (GRS). Products are distributed through Freedom 55 Financial™ and Great-West Life financial security advisors and Canada Life distribution channels, which include managing general agencies (MGAs) and their associated brokers, independent brokers as well as intercorporate agreements with other financial institutions.

The Company utilizes diverse, complementary distribution channels and is a leader in Canada in all individual product lines.

The individual lines of business access the various distribution channels through distinct product labels offered by Great-West Life, London Life, Canada Life and Quadrus Investment Services Ltd. (Quadrus). Unique products and services are offered to meet the needs of each distribution channel to allow the Company to maximize opportunities while minimizing channel conflict.

MARKET OVERVIEW

PRODUCTS AND SERVICES

The Company provides a wide array of protection and savings products that are distributed through multiple sales channels. Products are marketed under the Great-West Life, London Life and Canada Life brands.

The Company offers a wide range of segregated funds through its multiple distribution channels including 65 Freedom Funds™ to individual Freedom 55 Financial clients, 51 Generations™ Funds to individual Canada Life clients and 58 segregated funds to individual Great-West Life clients.

Quadrus offers 40 mutual funds under the Quadrus Group of Funds™ brand and over 3,200 third-party mutual funds. Mackenzie Financial Corporation, a member of the Power Financial Corporation group of companies, administers the Quadrus Group of Funds.

Market Position

- Manages largest portfolio of life insurance in Canada as measured by premium
- Pre-eminent provider of individual disability and critical illness insurance with 31% market share of in-force premium
- 30% market share of individual segregated funds
- 20% market share of group capital accumulation plans (GCAP)

Products and Services

Individual Insurance

Individual Life Insurance

- Term life
- Universal life
- Participating life

Living Benefits

- Disability
- Critical illness

Retirement & Investment Services

Products

- Segregated and mutual funds
- Retirement savings plans
- Non-registered savings programs
- Deferred profit sharing plans
- Defined contribution pension plans
- Payout annuities
- Deferred annuities
- Investment management services only plans
- Retirement income funds
- Life income funds

Administrative Services

- Employee stock purchase plans

Distribution

Associated with:

Great-West Life Distribution

- 1,893 Great-West Life financial security advisors
- 2,602 advisors associated with a number of intercorporate arrangements
- 6,813 independent brokers

London Life Distribution

- 3,198 Freedom 55 Financial security advisors

Canada Life Distribution

- 7,749 independent brokers associated with 55 Managing General Agencies (MGAs)
- 1,405 advisors associated with 17 national accounts
- 2,656 Investors Group consultants who actively sell Canada Life products
- 416 direct brokers and producer groups

Quadrus Investment Services Ltd. (also included in Great-West Life and London Life advisor counts):

- 3,717 investment representatives

Competitive Conditions

The individual insurance, savings, and investments marketplace is highly competitive. The Company's competitors include mutual fund companies, insurance companies, banks, investment advisors, as well as other service and professional organizations. Competition focuses on service, technology, cost and variety of investment options, investment performance, product features, price, and financial strength, as indicated by ratings issued by nationally recognized agencies.

2008 Developments

- Enhanced the life insurance portfolio by making the following changes to improve customer value and competitiveness: new term life insurance plans with lower rates, lower cost of insurance rates for certain universal life (UL) segments and increased policyholder dividends for London Life and Great-West Life participating policies.
- Individual Life sales growth continued the positive momentum from 2007 due to strong participating and term life sales.
- Introduced new critical illness offerings including enhanced loss of independent existence coverage, simplified return of premium options and a child coverage plan.
- Net asset flows for retail segregated funds of 1.5%, as a percentage of opening assets, and 15.2% for Quadrus Group of Funds compared favourably with the mutual fund industry result of 0.0% as reported by Investment Funds Institute of Canada (IFIC).
- Group Retirement Services (GRS) launched the *Member Investment Selection Service*, a new investment advice service that gives plan members access to advice on their group retirement plan investment options. It also addresses the key issues most plan sponsors face when providing investment advice to their plan members and backs the advice with a written agreement.
- Fidelity Investments Canada ULC has agreed to transition its Canadian group retirement record keeping business to Great-West Life. At October 22, 2008, this business had about 100 plan sponsors, 470 group retirement plans, 95,000 members and $2.2 billion in assets under administration. This is the equivalent of 3 years of sales activity and grows our asset base in capital accumulation plans by approximately 10%. The assets will transition to Great-West Life in 2009.

Real Estate Funds

Great-West Life, London Life and Canada Life temporarily suspended withdrawals and transfers-out from their Real Estate Segregated Funds (the Funds), effective the close of business December 15, 2008. The economic situation in 2008 significantly increased investors' preference for liquidity, which impacted equity markets, including real estate. One of the impacts was an increase in withdrawals and transfers-out from the Funds. In accordance with the terms of the Information Folder governing the Funds, management determined the need to temporarily suspend withdrawals and transfers-out from the Funds in order to preserve unitholder value, to balance the interests of all unitholders and to treat everyone fairly. The companies are working to rebuild liquidity to support the long-term viability of the funds, and to enable the suspension to be lifted.

The Real Estate Funds have performed well over time and substantially outperformed common stock investments during 2008. The Funds are a unique asset class with high-quality, income-producing properties across Canada. As part of a well-diversified portfolio, the Funds continue to be appropriate for investors with a long-term investment horizon. The Funds remain open to contributions.

Operating Results

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	**2008**	2007	% Change
Premiums and deposits	**$ 2,722**	$ 3,010	-10%	**$ 11,118**	$ 11,677	-5%
Sales	**1,839**	2,197	-16%	**7,614**	8,942	-15%
Fee and other income	**182**	219	-17%	**840**	852	-1%
Net income	**120**	169	-29%	**673**	637	6%

Premiums and deposits

In quarter

Individual Life premiums increased 9% to $742 million from the fourth quarter of 2007. Living Benefits premiums of $69 million were 5% higher than in 2007.

Market volatility contributed to a 32% decrease in total deposits made to individual proprietary investment funds versus 2007. Instead, retail clients turned to guaranteed investments leading to an increase in guaranteed interest deposits over 2007. Individual payout annuity premiums increased 50% as a result of improved competitiveness and clients' increased demand for guarantees.

GRS premiums and deposits decreased by 10% mainly due to a decline in group payout annuity premiums partially offset by a 13% increase in deposits to investment only plans. Note that both of these product lines depend on a small number of very large transactions so results can vary significantly each period.

Twelve months

Individual Life premiums increased 8% to $2,751 million from the same period in 2007, reflecting both continued strong persistency and sales growth. Living Benefits premiums of $268 million were 4% higher than in 2007.

Individual proprietary investment funds deposits decreased 16% and guaranteed interest deposits increased 59% for the same reasons as the in quarter period. Individual payout annuity premiums declined 11% over 2007 due to pricing changes aimed at focusing sales in targeted segments of the market.

GRS premiums and deposits were down 3% from last year. Deposits to group capital accumulation plans (GCAP) grew by 3% in large part due to a $291 million transfer of assets from our securities administration services into insurance products. The GCAP growth was offset by a 4% decline in deposits to investment only plans and a 37% decline in premiums to group payout annuities. Note that both of these product lines depend on a small number of very large transactions so results can vary significantly each period.

Sales

In quarter

Individual Life sales of $79 million were up 8% from the fourth quarter of 2007 driven by strong participating and term life sales growth. Sales of Living Benefits were the same as 2007 at $12 million.

Sales of proprietary retail investment funds decreased 26% as a result of recent economic uncertainty and market volatility.

GRS sales declined by 18% compared to 2007, with declines in all product lines. Market volatility has contributed to a significant slow down in activity in the group market as plan sponsors are reluctant to change service providers or create plans in the uncertain economic and market environment.

Twelve months

Individual Life sales for 2008 of $260 million were 10% higher than 2007 driven by strong participating and term life sales growth. Living Benefits sales were $45 million, up 5% from 2007 due to growth in critical illness sales.

Proprietary retail investment funds' sales declined by 15% compared to 2007 for the same reasons as the in quarter period.

GRS sales declined by 25% compared to 2007 with a 1% increase in annualized cash flows from new GCAP plans offset by declines of 28% in GCAP lump sum transfers, 27% in investment only plan sales and 37% in payout annuity sales. Activity in the group retirement market has been slow this year as volatile markets and other economic factors have made plan sponsors reluctant to make changes to their plans.

Fee and other income

Assets under administration December 31

	2008	2007
Business/Product		
Individual Retirement & Investment Services		
Risk-based products	**$ 6,136**	$ 6,486
Segregated funds	**18,593**	22,649
Proprietary mutual funds	**2,172**	2,432
Group Retirement Services		
Risk-based products	**6,329**	6,444
Segregated funds	**19,477**	23,283
Total assets under administration	**$ 52,707**	$ 61,294
Other plan assets (1)		
Business/Product		
Individual Retirement & Investment Services	**$ 2,818**	$ 3,554
Group Retirement Services	**$ 1,981**	$ 4,478
Total assets under administration and other plan assets		
Individual Retirement & Investment Services (1)	**$ 29,719**	$ 35,121
Group Retirement Services (1)	**$ 27,787**	$ 34,205

(1) Includes mutual funds distributed by Quadrus Investment Services, stock purchase plans administered by London Life (2007 amounts include stock purchase plans and mutual funds administered by GRS Securities Inc.) and portfolio assets managed by Laketon Investment Management.

In quarter

Individual Retirement and Investment Services (IRIS) and GRS fee income totaled $182 million, a decrease of 16% over last year for IRIS and 18% for GRS due to a drop in average segregated fund assets of 25% and 23% respectively. For IRIS, the impact on fees was partially offset by a shift to higher than average fee generating funds.

Twelve months

IRIS and GRS fee income totaled $840 million, a decrease of approximately 1% from last year for IRIS and 3% for GRS. For IRIS, the decrease was due to average segregated fund asset declines of 10%, partly offset by a shift to higher than average fee generating funds. Average segregated fund assets in the core GCAP product declined by 9%. The impact of this decrease was partially offset by a performance bonus related to the management of a fund for a large client.

Net income

In quarter

Net income attributable to common shareholders for the fourth quarter of 2008 was $120 million compared to $169 million in 2007. The decrease is principally the result of lower segregated fund fee income, a decrease in the value of UL spreads and lower expense gains, partially offset by better mortality gains, greater cash flow valuation method (CFVM) gains and slightly higher basis change releases.

Net income attributable to the participating account was $19 million in 2008 compared to $33 million in 2007.

Twelve months

Net income attributable to common shareholders for 2008 was $673 million compared to $637 million in 2007. The increase is principally the result of growth in mortality and morbidity gains, updated future tax estimates relating to the Department of Finance proposal to amend tax legislation in connection with fair value accounting, higher basis change releases and greater CFVM gains partially offset by asset impairment charges, a decrease in the value of UL spreads and lower segregated fund fee income in the last half of 2008.

Net income attributable to the participating account was $57 million in 2008 compared to $109 million in 2007.

OUTLOOK – INDIVIDUAL INSURANCE & INVESTMENT PRODUCTS

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.

Despite a very difficult economic environment in 2008, the IIIP division again delivered strong results. Our reputation for strength and stability, combined with prudent business practices and exemplary expense management, positions the organization well for 2009. We will continue to align product, service and distribution strategies to maximize sales, revenues and earnings.

While the Company will use its diverse distribution network to its advantage, we expect that fee income from segregated funds and mutual funds will be lower in 2009 as a result of the reduction in assets under management.

Given the challenging economic environment, expense management will be critically important to delivering strong financial results. This will be achieved through disciplined operational expense controls and focused investment in only the highest priority business initiatives.

The current market volatility underscores the soundness of the organization's strategy of distributing products through professional advisors. In 2009, we will continue to provide advisors with strategies and tools for helping clients focus on achieving long-term financial security regardless of market fluctuations. This approach benefits persistency of existing business and helps attract new clients. A key distribution strategy is to maximize use of common tools, processes and support, while providing unique support to specific segments of advisors.

Our broad spectrum of distribution associates, including exclusive and independent channels, and multiple brands provides important strategic advantages within the Canadian market. The division will continue to competitively develop, price and market its comprehensive range of products. We will maintain our focus on sales and service support for large cases in all channels.

As a leading Canadian provider of individual life insurance, Great-West, London Life and Canada Life anticipate another year of healthy life insurance sales in 2009. Our long-term participating account investment strategy includes various asset classes, including fixed income, common stock and real estate, to enhance long term yields for policyholders. Our strategy of spreading investment gains and losses over a limited number of years for the purpose of determining policyholder dividends helps reduce undue short term volatility in the dividend scales. These and other unique benefits of participating life insurance will offer important advantages to clients in the coming year. Our suite of living benefits products, of which we are also a leading provider, further strengthens our protection product shelf.

Due to a significant increase in new life insurance business in 2008, the organization has heightened its commitment to providing exemplary new business service. These improvements will continue to roll out in 2009, enhancing advisors' and clients' service experience.

In the coming year, the organization will market the advantages of investment funds, including segregated funds, of which we are a leading provider. These unique investment products provide valuable benefits in times of uncertain markets. Recent enhancements to Quadrus Group of Funds, offered through our mutual fund dealer Quadrus Investment Services, include tax-efficient distribution options and corporate class funds. In addition, the organization has introduced tax-free savings accounts (TFSAs). These new flexible investment savings vehicles allow Canadians to earn investment income, including capital gains, tax free. Canada Life's TFSA is part of its segregated fund offering, while distribution associates of London Life and Great-West Life offer the Quadrus Group of Funds TFSA.

In 2009, we will work with Fidelity Investments Canada to transition its Canadian group retirement and savings plan record-keeping business to Great-West Life. The Group Retirement Services organization will also market its innovative member investment selection service, a new offering giving plan members access to personal investment advice.

GROUP INSURANCE

Business Profile

In Canada, the Company offers effective benefit solutions for large and small employee groups. Through its Canada Life subsidiary, the Company is a recognized leader in the creditor insurance business with $1.7 billion in annual direct premium.

Market Overview

Products and Services

The Company provides a wide array of life, health and creditor insurance products that are distributed primarily through Group sales offices across the country.

Market Position
- Employee benefits for more than 33,000 plan sponsors
- 22.1% market share for employee/employer plans
- Leading market share for creditor plans

Products and Services

Life and Health
- Life
- Disability
- Critical illness
- Accidental death & dismemberment
- Dental plans
- Expatriate coverage
- Extended health care plans

Creditor
- Creditor life
- Creditor disability
- Creditor job loss
- Creditor critical illness

Distribution
- 106 account managers and sales staff located in 15 Group Offices
- 112 Regional Employee Benefits Managers and Selectpac Specialists located in Resource Centres

Competitive Conditions

There are three large group insurance carriers in Canada with significant market positions, led by the Company with a 22.1% market share. There are a number of other smaller companies operating nationally and several regional and niche competitors. The group insurance market is highly competitive. A strong market share position is essential to compete successfully in the Canadian group insurance market.

Within the small and mid-sized case markets, there are significant pricing pressures as employers seek to find ways to counter the inflationary costs of health care. A company with low cost operations, extensive distribution networks, strong service capability and cost-containment product offerings will have a competitive advantage in these markets.

In the larger case market, while low cost is a factor, service excellence and cost-containment product innovations are most important. In this market, a company that can effectively develop and implement innovative products and efficient administrative processes through the use of new technologies to meet emerging client requirements will differentiate itself and achieve competitive advantage.

2008 Developments

- Net income attributable to shareholders was $391 million, 2% higher than 2007.
- Overall sales results increased by 9%, reflecting an increase in the large size case market.

Operating Results

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Premiums and deposits	$ **1,646**	$ 2,981	-45%	$ **6,463**	$ 7,148	-10%
Sales	**128**	131	-2%	**501**	458	9%
Fee and other income	**35**	33	6%	**142**	131	8%
Net income	**96**	103	-7%	**391**	384	2%

Premiums and deposits

In quarter

Total net premiums and deposits were $1,646 million, which is $1,335 million lower than 2007. In 2007, $1,574 million of premiums were recaptured under a bulk reinsurance agreement and $128 million of premiums were ceded under a bulk reinsurance agreement. Excluding these items, premiums and deposits increased 7% over the comparative period in 2007. Small/mid-size case premiums and deposits increased 5% and large case net premium increased 8%.

Twelve months

Total net premiums and deposits were $6,463 million, which is 10% lower than 2007. In 2007, $1,574 million of premiums were recaptured under a bulk reinsurance agreement and $449 million of premiums were ceded under a bulk reinsurance agreement. Excluding these items, premiums and deposits increased 7% over the comparative period in 2007. Small/mid-size case premiums and deposits increased 7% and large case net premium increased 7%, despite a large single premium sale for $32 million in 2007 which was not repeated in 2008.

Sales

In quarter

Overall sales results in the quarter were down 2% compared to 2007. The decrease was mainly due to lower sales in the small case and large case markets partly offset by higher sales in creditor/direct marketing as a result of one large sale in 2008 for $14 million compared to one large sale for $7 million in 2007.

Twelve months

Overall sales results were up 9% compared to 2007. The increase was mainly due to large case sales, including a higher number of new sales compared to 2007.

Fee and other income

Fee and other income is derived primarily from ASO contracts, under which the Company provides group insurance benefit plan administration on a cost-plus basis.

In quarter

Fee and other income was up 6% mainly due to higher claims volumes.

Twelve months

Fee and other income was up 8% for the same reason as the in quarter period.

Net income

In quarter

Net income attributable to common shareholders was $96 million, a decrease of 7% compared to 2007. The results reflect a decrease in group health experience on long term disability cases, particularly in the mid-size market and a decrease in group life mortality experience mainly due to actuarial reserve basis changes. These decreases were partly offset by improved group health experience mainly due to actuarial reserve basis changes.

Twelve months

Net income attributable to common shareholders was $391 million, a 2% increase compared to 2007. The results reflect improved group health experience mainly due to actuarial reserve basis changes and improved expense margins. These increases were partly offset by a decrease in group health experience on long term disability cases particularly in the mid-size market and a decrease in group life mortality experience mainly due to actuarial reserve basis changes.

Outlook – Group Insurance

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.

The Company is well positioned within the Canadian group insurance business with leading market shares in many case size, regional and benefit market segments. The Company believes that this market share position, together with its low cost position and extensive distribution capability will facilitate continued growth in revenue premium. Through the effective investment in technologies, the Company expects to achieve continued reductions in administration and claims adjudication costs, thereby enhancing its competitive position.

As the costs of employee benefits continue to gain the attention of plan sponsors, the Company is developing an array of enhanced products and services for plan members, plan sponsors and their advisors. A particular focus in 2009 will be the introduction of innovative Administrative Services Only (ASO) plan designs, as well as a continued focus on absence and disability management services, many of which will support earlier return to work capabilities. The Company will also continue its efforts to improve process effectiveness, and therefore unit costs and customer service.

Given the challenging economic environment, expense management will be critically important to delivering strong financial results. This will be achieved through disciplined operational expense controls and focused investment on only the highest priority business initiatives.

CANADA CORPORATE

Canada Corporate consists of items not associated directly with, or allocated to the Canadian business units.

Net income

In quarter

Net income in the quarter was $12 million compared to a charge of $26 million in 2007. The increase in earnings includes a $30 million year-over-year increase in the mark-to-market adjustment in connection with two series of Lifeco Preferred Shares, Series D and Series E, partially offset by changes in tax related items.

Twelve months

Net income for 2008 was a charge of $61 million compared to a charge of $48 million in 2007. The decrease in earnings is related to tax items offset by lower accrued benefit expenses.

UNITED STATES

The United States operating results for Lifeco include the results of GWL&A, and the results of the insurance businesses in the United States branches of Great-West Life and Canada Life, together with an allocation of a portion of Lifeco's corporate results. Commencing August 3, 2007, the results also include Putnam.

Translation Of Foreign Currency

Foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period. All income and expense items are translated at an average rate for the period.

Currency translation impact is a non-GAAP financial measure which attempts to remove the impact of changed currency translation rates on GAAP results. *Refer to Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this report.*

Business Profile

Financial Services

GWL&A provides an array of financial security products, including employer-sponsored defined contribution retirement plans and defined benefit plans for certain market segments. Through relationships with government plan sponsors, the Company is one of the largest providers of services to state defined contribution plans, with 14 state clients as well as the government of Guam. It also provides annuity and life insurance products for individuals, families and corporate executives. Through its FASCore subsidiary, it offers private-label recordkeeping and administrative services for other providers of defined contribution plans.

Asset Management

Putnam provides investment management, certain administrative functions, distribution, and related services through a broad range of investment products, including the Putnam Funds, its own family of mutual funds which are offered to individual and institutional investors. Revenue is derived from the value and composition of assets under management, which includes domestic and international equity and debt portfolios; accordingly, fluctuations in financial markets and in the composition of assets under management affect revenues and results of operations.

Market Overview

Products and Services

The Company provides a focused product offering that is distributed through a variety of channels.

Financial Services

Market Position

- Fourth largest defined contribution record-keepers in the country, providing services for 3,739,464 participant accounts
- Significant market share in state and government deferred compensation plans
- Significant market share in business-owned life insurance (BOLI) purchased by financial institutions

Products and Services

- Retirement plans for public, corporate and nonprofit employers
- Enrollment services, communication materials, investment options and education services to employer-sponsored defined contribution plans
- Comprehensive administrative and recordkeeping services for financial institutions and employer-sponsored defined contribution plans and associated defined benefit plans
- Investment management products and services for both variable and fixed fund investment options
- Customized individual life insurance and annuity products
- Business-owned life insurance (BOLI) products

Distribution

- Defined contribution products are distributed by GWL&A and its affiliates and a network of independent agencies
- 436 regional sales directors, representatives and service personnel serve the retirement market
- FASCore provides its recordkeeping and administrative services directly to financial institutions and custom plans
- Customized individual life insurance and annuity products are distributed through financial institutions such as banks and discount brokers
- Business-owned life insurance products are distributed by GWL&A and through independent specialized benefits consultants

Asset Management

Market Position

- A Global asset manager with assets under management of US$106.0 billion as of December 31, 2008
- International distribution includes sales teams that are focused on major institutional markets in Europe, the Middle East, Southeast Asia and Australia and through strategic distribution partnerships in Japan, Canada and Germany

Products and Services

Investment Management Products & Services

- Individual retail investors – a family of open-end and closed-end mutual funds, college savings plans and variable annuity products
- Institutional investors – defined benefit and defined contribution retirement plans sponsored by corporations, state, municipal and other governmental authorities, retirement plans sponsored by unions under the Taft-Hartley Act, university endowment funds, charitable foundations, and collective investment vehicles (both U.S. and non-U.S.)
- Alternative investment products across the fixed income, currency, quantitative and equity groups

Administrative Services

- Transfer agency, underwriting, distribution, shareholder services, trustee and other fiduciary services

Distribution

Individual Retail Investors

- A broad network of distribution relationships with unaffiliated broker-dealers, financial planners, registered investment advisers and other financial institutions that distribute the Putnam Funds to their customers, which, in total, includes more than 150,000 advisors in over 2,000 firms
- Sub-advisory relationships and Putnam-labeled funds as investment options for insurance companies and non-U.S. residents
- Retail distribution channels are supported by Putnam's sales and relationship management team

Institutional Investors

- Supported by Putnam's dedicated account management, product management, and client service professionals
- Strategic relationships with several investment management firms outside of the United States

Competitive Conditions

Financial Services

The life insurance, savings, and investments marketplace is competitive. The Company's competitors include mutual fund companies, insurance companies, banks, investment advisors, and certain service and professional organizations. No one competitor or small number of competitors is dominant. Competition focuses on service, technology, cost, variety of investment options, investment performance, product features, price, and financial strength as indicated by ratings issued by nationally recognized agencies.

Asset Management

Putnam's investment management business is highly competitive. Putnam competes with other providers of investment products and services primarily on the basis of the range of investment products offered, investment performance, distribution, scope and quality of shareholder and other services, and general reputation in the marketplace. Putnam's investment management business is also influenced by general securities market conditions, government regulations, global economic conditions and advertising and sales promotional efforts. Putnam competes with other mutual fund firms and institutional asset managers that offer investment products similar to Putnam's as well as products which Putnam does not offer. Putnam also competes with a number of mutual fund sponsors that offer their funds directly to the public, conversely, Putnam offers its funds only through intermediaries.

2008 Developments

- Adjusted net income from continuing operations in the quarter was US$68 million ($82 million), a decrease of 32% compared to last year, and US$292 million ($309 million) for 2008 or 15% lower than 2007.
- An after-tax gain of US$118 million was recognized in the first quarter of 2008 as a result of the termination of a long-standing assumption reinsurance agreement under which GWL&A had reinsured a block of U.S. participating policies (US$176 million after-tax), offset by strengthening of policy reserves associated with the additional overhead Financial Services will bear related to the sale of Healthcare (US$58 million after-tax).
- The 2008 results include US$30 million net of tax related to asset impairment charges.
- On October 1, 2008, Putnam issued a news release announcing that it will participate in the Money Market Guaranty Program recently introduced by the U.S. Treasury. Participation in this program will provide shareholders of Putnam's retail money market funds with protection, in the event of a fund's liquidation, against the net asset value of the funds falling below $0.995 per share.
- On September 24, 2008, Putnam issued a news release announcing that it had entered into a transaction with Federated Investors, Inc. that would result in the liquidation of Putnam's US$12.3 billion institutional Prime Money Market Fund. Under this transaction, shareholders of the Putnam Prime Money Market Fund would receive shares of the Federated Prime Obligations Fund on a $1-per-share for $1-per-share basis.

Goodwill and Intangible Assets Impairment

During the fourth quarter, the Company completed its annual test for goodwill and intangible assets impairment. The test resulted in the Company recording a non-cash, after-tax impairment charge of US$1,118 million ($1,353 million) in connection with goodwill and intangible assets related to the acquisition of Putnam. The after-tax results are net of Putnam's non-controlling interests portion of the charges of US$6 million. The impairment charge reflects management's assessment of the impact of the decline of Putnam's AUM as a result of the deterioration of investment market conditions since the acquisition date. The decrease in AUM, together with the current investment market and economic conditions and the expected timing of their future recovery have lowered the Company's previous estimates of Putnam's future revenues and cash flows.

The impairment charge resulted in a non-cash, pre-tax charge of US$901 million (US$560 million after-tax) related to intangible assets and a non-cash, pre-tax charge of US$899 million (US$558 million after-tax) related to goodwill. These charges are presented as other adjustments to net income.

A further discussion of impairment testing of goodwill and intangible assets can be found in the Critical Accounting Estimates section of this MD&A and note 7 to the Annual Financial Statements.

In conjunction with the goodwill and intangible assets charge, the Company also wrote off a future tax asset with regards to State taxes in the amount of US$28 million ($34 million) after-tax. This expense is represented as other adjustments to net income.

Sale of Healthcare to CIGNA

On April 1, 2008, Lifeco announced that GWL&A had completed the sale of its health care insurance business, Great-West Healthcare, to a subsidiary of CIGNA Corporation. As part of the transaction, GWL&A has received consideration of US$1.5 billion in gross proceeds, and approximately US$750 million, representing the amount of equity invested in the health care business, was made available for other purposes. The sale proceeds and the equity invested were applied to outstanding short term credit facilities and a term loan. (Refer to Liabilities section.)

The business remaining with GWL&A has been transferred to Financial Services Individual Markets. As required by generally accepted accounting principles, the statements of income and balance sheets of these business activities that have been disposed of are presented as discontinued operations for all periods in the consolidated financial statements.

The Company recorded a non-recurring gain on sale on the transaction of US$630 million or $649 million net of tax.

Expanded Restructuring at Putnam

During the fourth quarter of 2008, Putnam expanded its original restructuring plans to include a broader restructuring of its business. This expanded restructuring plan is intended to clear up complexities, better focus Putnam's service and distribution in core markets, respond to the impact of financial market conditions on assets and fee income, and build a culture that rewards excellence. It is expected to be completed in two phases. The first phase included a restructuring of Putnam's equity investment unit including consolidating fund offerings, emphasizing fundamental research, vesting full authority and responsibility with individual fund managers, and realigning manager incentives. The second phase will include the restructuring of Putnam's operations, distribution, and other areas. The total additional restructuring expenses associated with the expanded plan are US$58 million ($70 million) (US$38 million ($45 million) after-tax) and are reflected in restructuring expenses in the Summaries of Consolidated Operations. These expenses are represented as other adjustments to net income.

Selected consolidated financial information – United States

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Premiums and deposits	$ 8,243	$ 7,110	16%	$ 35,764	$ 15,374	–
Sales	8,397	7,549	11%	42,734	16,222	–
Fee and other income	335	414	-19%	1,442	1,001	44%
Paid or credited to policyholders	833	669	25%	2,366	2,631	-10%
Net income – continuing operations – common shareholders	(1,350)	98	–	(1,005)	366	–
Net income – continuing operations – common shareholders (US$)	(1,116)	100	–	(774)	343	–
Total assets				$ 31,923	$ 29,700	7%
Segregated funds net assets				17,824	17,567	1%
Mutual funds net assets				128,950	176,730	-27%
Total assets under administration				$ 178,697	$ 223,997	-20%

Net income – common shareholders

(US $ millions)	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Continuing operations – adjusted	$ 68	$ 100	-32%	$ 292	$ 343	-15%
Discontinued operations – adjusted	–	44	–	43	189	-77%
Total – adjusted	68	144	-53%	335	532	-37%
Discontinued – gain on sale	–	–	–	630	–	–
Other adjustments	(1,184)	–	–	(1,066)	–	–
Total adjustments	(1,184)	–	–	(436)	–	–
Total	$ (1,116)	$ 144	–	$ (101)	$ 532	–

Net income – common shareholders

(C $ millions)	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Continuing operations – adjusted	$ 82	$ 98	-16%	$ 309	$ 366	-16%
Discontinued operations – adjusted	–	43	–	43	203	-79%
Total – adjusted	82	141	-42%	352	569	-38%
Discontinued – gain on sale	–	–	–	649	–	–
Other adjustments	(1,432)	–	–	(1,314)	–	–
Total adjustments	(1,432)	–	–	(665)	–	–
Total	$ (1,350)	$ 141	–	$ (313)	$ 569	–

BUSINESS UNITS – UNITED STATES

FINANCIAL SERVICES

Operating Results

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Premiums and deposits	$ 1,926	$ 1,136	70%	$ 5,779	$ 5,026	15%
Sales	2,080	1,575	32%	12,749	5,874	–
Fee and other income	123	110	12%	446	486	-8%
Net income	112	71	58%	339	320	6%
Premiums and deposits (US$)	$ 1,592	$ 1,159	37%	$ 5,392	$ 4,664	16%
Sales (US$)	1,719	1,607	7%	12,272	5,515	–
Fee and other income (US$)	101	113	-11%	419	453	-8%
Net income (US$)	93	72	29%	316	297	6%

The income statement of Financial Services was restated for 2007 to reflect the impact of the discontinued operations (Healthcare). Indirect corporate overhead expense allocations were reallocated to Financial Services. The Company also retained one large group life case that is now included in Financial Services. The table below provides the impact on premiums and deposits and net income as it relates to the impact of the transferred policy to Financial Services as well as increased expenses due to overhead.

	For the three months ended December 31, 2007	For the twelve months ended December 31, 2007
Premiums and deposits	$ 25	$ 194
Net income	(3)	(14)
Premiums and deposits (US$)	$ 26	$ 178
Net income (US$)	(3)	(13)

Premiums and deposits

In quarter

Premiums and deposits for the fourth quarter of 2008 were US$1,592 million, an increase of US$433 million compared to the same period in 2007. The increase is attributable to increased premium on business-owned life insurance (BOLI) in Individual Markets from one large sale of US$350 million.

Twelve months

Premiums and deposits for the twelve months ended December 31, 2008 increased US$728 million over the same period in 2007. The increase is attributable to higher sales of the BOLI product and an increase in Retirement Services premiums and deposits related to transfers from the retail investment options to general account and segregated fund investment options.

Sales

In quarter

Sales for the fourth quarter of 2008 increased US$112 million compared to 2007. The increase is due to higher BOLI sales in the fourth quarter where one large sale contributed US$350 million.

Twelve months

Sales for the twelve months ended December 31, 2008 totaled US$12,272 million, an increase of 123%. The increase is in Retirement Services as a result of the deferred compensation plan sale to the Commonwealth of Massachusetts (which includes the conversion of 290,000 customer accounts and a large rollover of US$4.4 billion) and in Individual Markets due to higher sales of the BOLI product.

Retirement Services participant accounts totaling 3.739 million increased 6% compared to December 31, 2007.

Financial Services – Retirement Services customer account values US $ millions

	Change for the three months ended December 31		Total at December 31		
	2008	2007	2008	2007	% Change
General account – fixed options					
Public/Non-profit	$ (59)	$ (50)	$ 3,302	$ 3,342	-1%
401(k)	164	36	3,269	2,655	23%
	$ 105	$ (14)	$ 6,571	$ 5,997	10%
Segregated funds – variable options					
Public/Non-profit	$ (367)	$ (7)	$ 5,639	$ 6,457	-13%
401(k)	(1,063)	(216)	4,651	6,920	-33%
	$ (1,430)	$ (223)	$ 10,290	$ 13,377	-23%
Unaffiliated retail investment options & administrative services only					
Public/Non-profit	$ (8,501)	$ 148	$ 36,829	$ 46,319	-20%
401(k)	(3,092)	927	14,639	22,386	-35%
Institutional (FASCore)	(3,732)	(2,150)	23,603	27,509	-14%
	$ (15,325)	$ (1,075)	$ 75,071	$ 96,214	-22%

The decrease in the account values for segregated funds and unaffiliated retail investment options is attributable to the decline in the U.S. equities market, partially offset by the deferred compensation plan sale to the Commonwealth of Massachusetts (Refer to Sales section above). The increase in 401(k) general account is due to transfers from variable investment options to a more conservative fixed general account.

Fee and other income

In quarter

Fee income for the fourth quarter of 2008 decreased US$12 million compared to the same period in 2007. The decrease is due to lower average assets in segregated funds from a year over year drop in average U.S. equity market levels.

Twelve months

Fee income for the twelve months ended December 31, 2008 decreased US$34 million compared to the same period in 2007. The decrease is due to the Individual Markets business line, which recorded one time fees earned in 2007 that were not repeated in 2008, as well as lower average assets in segregated funds from a year over year drop in the U.S. equities market levels.

Net income

In quarter

Net income increased US$21 million compared to the same period in 2007, primarily due to positive investment margins and favourable mortality.

Twelve months

The increase in net income of US$19 million for the twelve months ended December 31, 2008, compared to a year ago, is due to a combination of lower operating expenses, positive investment margins and favourable income taxes including the recognition of benefits in connection with prior year income taxes. These increases were partly offset by a charge for asset impairment in 2008.

Outlook – Financial Services

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.

In 2009 Financial Services intends to continue its focus on providing excellent customer service and diversity of product offerings and distribution channels. The Company intends to continue its reinvestment in infrastructure through technology, service and product enhancements while also maintaining a solid internal control foundation.

Great-West Retirement services will continue to focus on developing and expanding new distribution channels in 2009 ensuring that through our successful partnerships with other distributors, we create a solid base for future growth. In addition, we plan on rolling out new and innovative products to retirement plan customers in the accumulation and distribution phase in the last half of 2009.

We expect that variable fee income will be lower in 2009 due to depressed market levels which will lower average asset balances compared to 2008.

In 2008 Individual Markets continued to strengthen relationships with key distributors which translated into substantial sales growth. Over 130 new BOLI clients were added during 2008. New relationships developed in 2008 should contribute to continued sales growth in 2009. With a continued emphasis on product simplicity, customer value, and product development collaboration, Great-West and Charles Schwab Co., Inc. are together working on ways to serve the annuity markets with accumulation and income products in 2009.

With the sale of the Healthcare division, there has been a major initiative to realign corporate shared services by evaluating the needs of the remaining businesses. Although substantially complete in 2008, this project will continue into 2009 with a focus on right sizing the corporate areas to support the dynamic growth environment of the Financial Services industry.

Strong expense management throughout the organization has always been a key part of the division's overall strategy for success. This combined with optimizing existing processes with a focus on excellent customer service is an important building block to ensure the Company's success in 2009.

ASSET MANAGEMENT

Putnam provides investment management, certain administrative functions, distribution, and related services through a broad range of investment products, including the Putnam Funds, its own family of mutual funds which are offered to individual and institutional investors. Revenue is derived from the value and composition of assets under management, which includes U.S. and international equity and debt portfolios; accordingly, fluctuations in financial markets and in the composition of assets under management affect revenues and results of operations.

The operating results include the results of Putnam from August 3, 2007, the date of acquisition.

Adjusted net income excludes the following items, after-tax:

Asset management adjustments

	US$	C$
Goodwill and intangible assets impairment charges	$ 1,118	$ 1,353
Future tax asset valuation allowance	28	34
Restructuring charge	38	45

OPERATING RESULTS

	For the three months ended December 31			For the twelve months ended December 31	Aug. 3 to Dec. 31	
	2008	2007	% Change	2008	2007 (1)	% Change
Premiums and deposits (2)	$ 6,317	$ 5,974	6%	$ 29,985	$ 10,348	–
Fee and other income						
Investment management fees	147	222	-34%	708	370	91%
Service fees	50	59	-15%	216	100	–
Underwriting and distribution fees	12	22	-45%	63	38	66%
Other	2	1	100%	4	2	100%
Fee and other income	211	304	-31%	991	510	94%
Net income – adjusted	(18)	26	–	(23)	42	–
Premiums and deposits (US$) (2)	$ 5,221	$ 6,096	-14%	$ 28,519	$ 10,262	–
Fee and other income						
Investment management fees (US$)	121	226	-46%	674	366	84%
Service fees (US$)	42	61	-31%	205	100	–
Underwriting and distribution fees (US$)	10	22	-55%	60	38	58%
Other	2	1	100%	4	2	100%
Fee and other income (US$)	175	310	-44%	943	506	86%
Net income – adjusted (US$)	(15)	27	–	(19)	42	–

(1) The 2007 comparative amounts include Putnam results since August 3, 2007.

(2) Premiums and deposits exclude Asset Management Prime Money Market Fund net deposits three months 2008 US$0, 2007 US$3,422 million and twelve months 2008 US$(7,508) million, 2007 US$4,781 million.

Premiums and deposits

Asset Management premiums and deposits includes deposits from gross sales of long term assets and excludes net sales of prime money market assets.

In quarter

Premiums and deposits for the fourth quarter of 2008 were US$5,221 million, a decrease of US$875 million compared to the same period in 2007. The decrease is attributable to a reduction in sales as a result of declining economic conditions.

Twelve months

Premium and deposits for the twelve months ended December 31, 2008 were US$28,519 million.

Fee and other income

Revenue is derived primarily from investment management fees, transfer agency and other shareholder service fees and underwriting and distribution fees. Generally, fees are earned based on average assets under management and may depend on financial markets, the relative performance of Putnam's investment products, and the number of retail shareholder accounts or sales.

In quarter

Fee and other income for the fourth quarter of 2008 decreased US$135 million compared to the same period in 2007 as a result of lower average AUM. Average AUM has decreased 31% in the quarter due to unfavourable market conditions and net redemptions. Changing market conditions have caused a shift in Putnam's asset mix, resulting in a change in revenue from management and service fees.

Twelve months

Fee and other income was US$943 million for the twelve months ended December 31, 2008. AUM has decreased 41% in 2008 due to unfavourable market conditions and net redemptions.

Net income

In quarter

Putnam incurred an earnings loss of US$15 million, net of financing expenses, during the fourth quarter of 2008, a decrease of US$42 million from the same period in 2007. This loss is largely due to lower revenues on lower AUM. As a substantial portion of the decrease in AUM occurred in the fourth quarter of 2008, the Company was unable to proportionately reduce its expenses in

the relatively short time frame. The recent declines in financial market values have negatively impacted investment management fees, service fees, investment income and net income. Moreover, changing market conditions have caused a shift in Putnam's asset mix, resulting in a change in revenue and income. Putnam also incurred a charge of US$5 million after-tax for "other-than-temporary" impairment of investments.

Twelve months

Putnam incurred an earnings loss of US$19 million, net of financing expenses, including a US$18 million after-tax charge relating to the Putnam Prime Money Market transaction and a US$5 million after-tax charge for "other-than-temporary" impairment of investments, for the twelve months ended December 31, 2008.

Assets under management

In the third quarter of 2008, Putnam liquidated its Prime Money Market Fund. Accordingly, the following table excludes Prime Money Market Funds to facilitate comparison to prior periods.

Assets under management US $ millions

	For the three months ended December 31			For the twelve months ended December 31	Aug. 3 to Dec. 31	
	2008	2007	% Change	2008	2007	% Change
Beginning assets	**$ 136,591**	$ 186,980	-27%	**$ 178,515**	$ 184,263	-3%
Sales [1]	**5,221**	6,096	-14%	**28,519**	10,262	–
Redemptions	**(12,676)**	(8,695)	–	**(45,687)**	(14,163)	–
Net asset flows	**(7,455)**	(2,599)	–	**(17,168)**	(3,901)	–
Impact of market/performance	**(23,439)**	(5,866)	–	**(55,650)**	(1,847)	–
Ending assets	**$ 105,697**	$ 178,515	-41%	**$ 105,697**	$ 178,515	-41%
Average assets under management	**$ 110,973**	$ 182,946	-39%	**$ 147,226**	$ 182,759	-19%

(1) Includes dividends reinvested

In quarter

Average assets for the quarter were US$111.0 billion, as follows: US$58.0 billion in mutual funds (US$109.2 billion in 2007) and US$53.0 billion in institutional accounts (US$73.7 billion in 2007). Assets under management were US$105.7 billion at December 31, 2008, compared with US$136.6 billion at September 30, 2008. The decrease in assets under management from September 30, 2008 to December 31, 2008 of $30.9 billion is due to the negative impact of market/performance of US$23.4 billion and net redemptions of US$7.5 billion.

Twelve months

Average assets for 2008 were $147.2 billion: mutual funds US$82.0 billion and institutional accounts US$65.2 billion.

Pro-Forma Putnam Assets Under Management

The Company's results include Putnam only from the August 3, 2007 date of acquisition. Accordingly, AUM for the three months and twelve months ended December 31, 2007 are presented here on a pro-forma basis to provide a more informative analysis of Putnam's assets under management.

In the third quarter of 2008, Putnam liquidated its Prime Money Market Fund. Accordingly, the following table excludes Prime Money Market Funds to facilitate comparison to prior periods.

Pro-forma assets under management US $ millions

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Beginning assets	**$ 136,591**	$ 186,980	-27%	**$ 178,515**	$ 187,782	-5%
Sales [1]	**5,221**	6,096	-14%	**28,519**	28,418	–
Redemptions	**(12,676)**	(8,695)	–	**(45,687)**	(40,735)	–
Net asset flows	**(7,455)**	(2,599)	–	**(17,168)**	(12,317)	–
Impact of market/performance	**(23,439)**	(5,866)	–	**(55,650)**	3,050	–
Ending assets	**$ 105,697**	$ 178,515	-41%	**$ 105,697**	$ 178,515	-41%
Average assets under management	**$ 110,973**	$ 182,946	-39%	**$ 147,226**	$ 186,585	-21%

(1) Includes dividends reinvested

Twelve months

Average assets under management for the twelve months ended December 31, 2008 were US$147.2 billion, a decrease of US$39.4 billion from 2007. The decrease in assets under management from December 31, 2007 to December 31, 2008 of US$72.8 billion resulted primarily from the negative impact of market/performance and net redemptions.

Outlook – Asset Management

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.

On July 1, 2008, Putnam named Robert L. Reynolds as President and CEO, who brings to Putnam substantial industry experience, energy and vision. Since his arrival, Putnam has established the following key strategies for the organization:

- Deliver superior investment performance,
- Launch focused, innovative and high-quality products,
- Earn a leadership position in the U.S. mutual fund industry,
- Become the retirement partner of choice for advisors, plan sponsors and participants,
- Grow Putnam's institutional businesses domestically and internationally.

To address these strategies, Putnam has added to the senior leadership team in the areas of Investment Management, Product and Marketing, Retirement Solutions, Finance and other areas. Additionally, Putnam has made key hires of portfolio managers and senior stock analysts to strengthen Putnam's equity investing teams. In January 2009, Putnam launched the industry's first suite of target absolute return mutual funds designed to seek annualized total returns of 1%, 3%, 5%, or 7% above those of U.S. Treasury bills over a period of three years or more, and also launched a suite of global sector mutual funds. Management believes that Putnam's strengths position it well to take advantage of market opportunities.

Putnam has a broad investment management platform. As of December 31, 2008, Putnam managed 93 mutual funds which are diversified by style, asset class and geography. Putnam's experienced retail wholesaling team covers a broad range of geographic and product markets and distribution channels in the United States, maintaining more than 150,000 financial advisor relationships representing approximately 6.6 million shareholder accounts as of December 31, 2008. Putnam's institutional sales team is aligned by geographic territory and client type, both domestically and internationally.

In 2008, Putnam operated in a period of sustained volatility in global financial markets. The recent declines in financial market values, including those experienced during the period from September through December 2008, have negatively impacted Putnam's investment management fees, service fees, investment income and net income. Due to the reduction of assets under management, we expect revenues will be lower in 2009 as a result. Putnam will continue to align its business and cost structure to respond to changes in the financial markets. Profit margins may be reduced if expenses are not reduced in proportion to declines in revenues.

Factors that impact Putnam's assets under management and revenue in the future include declines in equity markets, changes in fixed-income markets, changes in interest rates and defaults, recent economic developments, political and other economic risks, redemptions and other withdrawals, changing investments trends, relative investment performance and changes in Putnam's asset mix or to Putnam's client base. Putnam's future expenses may be impacted by further efforts to add to staff or retain key staff, outsourcing decisions and cost reductions.

UNITED STATES CORPORATE

Net Income

In quarter

Net income for the fourth quarter was a charge of US$10 million ($12 million) compared to US$1 million ($1 million) for the same period of 2007, primarily due to higher taxes partially offset by higher investment income.

Twelve months

Net income was US$113 million ($111 million) compared to US$4 million ($4 million) for the same period of 2007. There were two non-recurring items that occurred in the first quarter of 2008. The first item is a gain of US$176 million in connection with the termination of a long-standing assumption reinsurance agreement under which GWL&A had reinsured a block of participating policies. The second item is a US$58 million after-tax charge from the strengthening of policy reserves associated with the additional overhead Financial Services will bear related to the sale of the Healthcare business.

DISCONTINUED OPERATIONS (HEALTHCARE)

On April 1, 2008 GWL&A completed the sale of its health care business, Great-West Healthcare. As part of the transaction, GWL&A received consideration of US$1.5 billion in gross proceeds, and approximately US$750 million, representing the amount of equity invested in the health care business, was made available for other purposes. The sale proceeds and the equity invested were applied to outstanding short term credit facilities and a term loan. (Refer to Liabilities section.)

As a result of the sale a gain of US$995 million (US$630 million after-tax) ($649 million after-tax) was recorded in net income from discontinued operations on the Summary of Consolidated Operations. The gain is net of a charge of US$320 million (US$203 million after-tax) as a result of costs associated with the sale.

In accordance with the CICA Handbook, the operating results and assets and liabilities of the health care business have been presented as discontinued operations in the financial statements of the Company. Net income from discontinued operations, excluding the gain on sale of Healthcare, was US$43 million. This reflects only the earnings from the first quarter of 2008, compared to US$189 million for the twelve months ended December 31, 2007.

Europe

The European segment is broadly organized along geographically defined market segments and offers protection and wealth management products, including payout annuity products, and reinsurance. The segment is comprised of two distinct business units: Insurance & Annuities, which consists of operations in the United Kingdom, Isle of Man, Ireland, and Germany; and Reinsurance, which operates primarily in the United States, Barbados and Ireland.

The Insurance & Annuities business is conducted through Canada Life and its subsidiaries. The Reinsurance business is conducted through Canada Life, LRG, and their subsidiaries.

Translation of Foreign Currency

Foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period. All income and expense items are translated at an average rate for the period.

Currency translation impact is a non-GAAP financial measure which attempts to remove the impact of changed currency translation rates on GAAP results. *Refer to Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.*

Business Profile

Insurance & Annuities

The international operations of Canada Life and its subsidiaries are located primarily in Europe, and offer a focused portfolio of protection and wealth management products and related services mainly in the United Kingdom, Isle of Man, Ireland and Germany.

The core products offered in the United Kingdom are payout annuities, savings and group insurance. These products are distributed through independent financial advisors and employee benefit consultants. The Isle of Man operation provides savings and individual protection products that are sold through independent financial advisors in the United Kingdom and in other selected territories.

The core products offered in Ireland are individual insurance and savings and pension products. These products are distributed through independent brokers and a direct sales force.

The German operation focuses on pension and individual protection products that are distributed through independent brokers.

Canada Life has continued to increase its presence in its defined market segments by focusing on the introduction of new products and services, enhancement of distribution capabilities and intermediary relationships.

Reinsurance

The Company's reinsurance business is comprised of operations in the United States, Barbados and Ireland.

In the United States, the Company's reinsurance business is carried on through the U.S. branch of Canada Life, through a subsidiary of LRG, and through an indirect subsidiary of GWL&A (Great-West Life & Annuity Company of South Carolina, or GWSC). GWSC was created in 2005 in conjunction with the establishment of a new long-term letter of credit facility to meet the Company's U.S. statutory Regulation XXX reserve requirements relating to its life reinsurance business. In 2007, the U.S. branch of Canada Life retroceded to GWSC most of its Regulation XXX business issued during 2005 and 2006.

In Barbados, the Company's reinsurance business is carried on primarily through subsidiaries of LRG.

In Ireland, the Company's reinsurance business is carried on through a subsidiary of LRG, and through a subsidiary of Canada Life (Canada Life International Re Limited).

The Company's business includes both reinsurance and retrocession business transacted directly with clients or through reinsurance brokers. As a retrocessionaire, the Company provides reinsurance to other reinsurers to allow those companies to spread their insurance risk.

The product portfolio offered by the Company includes life, annuity and property and casualty reinsurance, provided on both a proportional and non-proportional basis.

In addition to providing reinsurance products to third parties, the Company also utilizes internal reinsurance transactions between affiliated companies. These transactions are undertaken in order to better manage insurance risks relating to retention, volatility and concentration as well as to facilitate capital management for the Company and its subsidiaries and branch operations. These internal reinsurance transactions may produce benefits that are reflected in one or more of the Company's other business segments.

Market Overview

Products and Services

The Company provides protection and wealth management products that are distributed primarily through independent sales channels.

Insurance & Annuities
Market Position **U.K. and Isle of Man** • Among the top 20 life insurance companies operating in U.K. • A leader of the group life market, with 33% share • Second in the group income protection market with 20% share • A top provider of offshore single premium investment product into the U.K., with 9% market share • Among the top four insurers in payout annuities, with 8% market share • Among the top ten in the onshore unit-linked single premium bond market **Ireland** • 5% of Irish life assurance market • Among the top six insurers by new business market share **Germany** • Among the top two in the broker unit-linked market • Among the top eight in the overall unit-linked market • 1% market share in the German market
Products and Services **Wealth management** • Pensions • Savings • Payout annuities, including enhanced annuities **Group Insurance** • Life insurance • Income protection (disability) • Critical illness **Individual Insurance** • Life insurance • Disability • Critical illness
Distribution **U.K. and Isle of Man** • Independent financial advisors • Employee benefit consultants **Ireland** • Independent brokers • Direct sales force **Germany** • Independent brokers

Reinsurance

Market Position
- Among the top ten life reinsurers in the U.S. by assumed business
- Niche positions in property and casualty and annuity business

Products and Services

Life
- Yearly renewable term
- Co-insurance
- Modified co-insurance

Property & Casualty
- Catastrophe retrocession

Annuity
- Fixed annuity
- Payout annuity

Distribution
- Independent reinsurance brokers
- Direct placements

Competitive Conditions

United Kingdom and Isle of Man

In the United Kingdom, the Company holds strong positions in several product-focused markets with particular strength in the payout annuity, onshore/offshore savings, and group life and income protection markets. The Company increased its market share in both group life and income protection markets and also in the single premium onshore investment bond market and remains competitive in the payout annuity market. Insurance and wealth management products are sold primarily through independent financial advisors. To become the provider of choice, the Company must maintain competitive product design and pricing, distribution compensation and service levels.

Ireland

The life insurance market in Ireland is very mature with one of the highest penetration rates in the world. The market has seen a very significant decline in new business during 2008 with the larger companies continuing to hold a significant share of the market.

The Company operates in all segments of the market, and focuses on higher margin products including pensions and single premium savings business. Canada Life is the sixth largest life insurance operation in Ireland as measured by new business market share. The Company continues to invest in product development infrastructure, distribution capability and systems which are critical to maximize ongoing sales growth and retention of in-force business.

Germany

2008 was a difficult year for the German life insurance market. The first half of the year was dominated by the introduction of the new German Insurance contract law on January 1st. As expected, sales across the industry were low during this period, as brokers retrained and familiarized themselves with the relaunched product ranges of the insurance providers. The government-sponsored Riester pensions were an exception to this trend due to an increase in the level of government subsidy. The Company has not entered this market because of low margins and high administrative burden associated with the product.

The second half of the year was dominated by the impacts of the global financial crisis. Investors were reluctant to invest in equity-based products given the market volatility. Many traditional German companies have now launched unit-linked and similar products which compete directly with Canada Life's products.

Despite the current uncertain environment, Canada Life is still regarded highly by the German broker market. Recent surveys carried out by broker organizations (Asscompact and Experten.de) rank us among the leading two Anglo-Saxon insurers operating in the German market and also among the top two providers of unit-linked products in Germany.

Reinsurance

In the United States life reinsurance market there was a significant increase in demand by direct writers for reinsurance solutions that emphasized capital relief. The availability of alternative solutions to manage their U.S. Regulation XXX reserving requirements that had been very popular in recent years was severely curtailed by the financial market turmoil. The sales and marketing strategy continues to leverage the Company's financial strength, adaptive product solutions and strong client relationships. The Company's expertise in capital effective reinsurance has generated a steady flow of sales opportunities.

The most significant annuity reinsurance opportunities for the Company in 2008 were U.K. payout annuities, where the holders of significant in-force annuity blocks continue to seek longevity risk protection and capital relief, increasingly in structures that do not involve the transfer of the associated assets.

2008 was a cycle turning year in the property catastrophe retrocession market. Signs of softening were abundant in the first half of the year with prices falling from 2006-7 levels, however insurer and reinsurer balance sheets were hit with a combination of asset impairments, a string of severe weather losses in early 2008 and major hurricanes Gustav and Ike in September. Against the backdrop of growing demand for protection, capacity from capital markets evaporated in the latter part of the year with hedge fund involvement and catastrophe bond placements falling sharply. As a result, January 2009 pricing for traditional retrocession coverage renewals improved noticeably with upward pressure on both price and attachment levels in most accounts.

2008 Developments

- Shareholder net income for the fourth quarter was $224 million, an increase of $74 million from 2007 while net income for the year was $726 million, an increase of $115 million. Included in net income for the year are asset impairment charges of $54 million after-tax.
- Insurance & Annuities sales increased by $291 million from the fourth quarter of 2007 and decreased by $1,083 million for the year.

Standard Life Transaction

On February 14, 2008, CLIRe, an indirect wholly-owned Irish reinsurance subsidiary of the Company, signed an agreement with Standard Life, a U.K. based provider of life, pension and investment products, to assume by way of indemnity reinsurance, a large block of U.K. payout annuities. The reinsurance transaction, at the date of signing, resulted in revenue premiums of $12.5 billion with corresponding increases in paid or credited to policyholders, policyholder liabilities and funds held by ceding issuers. The Standard Life transaction, while undertaken by the Company's Reinsurance division, affects the net income reported by both the Reinsurance division and the Insurance & Annuities division as a result of investment management and other services provided to CLIRe by U.K. based affiliates.

Selected consolidated financial information – Europe

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Premiums and deposits	$ **2,723**	$ 2,805	-3%	$ **23,114**	$ 12,941	79%
Sales – Insurance & Annuities	**1,349**	1,058	28%	**5,004**	6,087	-18%
Fee and other income	**178**	181	-2%	**648**	673	-4%
Paid or credited to policyholders	**2,472**	2,498	-1%	**18,660**	8,094	–
Net income – common shareholders	**224**	150	49%	**726**	611	19%
Total assets				$ **44,977**	$ 36,017	25%
Segregated funds net assets				**21,854**	25,682	-15%
Total assets under administration				$ **66,831**	$ 61,699	8%

Net income – common shareholders

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Insurance & Annuities	$ **169**	$ 121	40%	$ **560**	$ 485	15%
Reinsurance	**58**	30	93%	**186**	122	52%
Corporate	**(3)**	(1)	–	**(20)**	4	–
	$ **224**	$ 150	49%	$ **726**	$ 611	19%

BUSINESS UNITS – EUROPE

The paragraphs below refer to currency movement. In the fourth quarter, comparing 2008 to 2007, the euro and the US dollar strengthened against the Canadian dollar but this was partly offset by the strengthening of the Canadian dollar against the British pound. Net income was positively impacted by $2 million compared to the fourth quarter of 2007 as a result of currency movement. On a constant currency basis, net income attributable to common shareholders increased 49% over 2007.

For the full year 2008 compared to 2007 the Canadian dollar strengthened against the British pound and the US dollar, partly offset by the strengthening of the euro against the Canadian dollar. Net income was negatively impacted by $45 million compared to 2007 as a result of currency movement. On a constant currency basis, net income attributable to common shareholders increased 26% over 2007.

INSURANCE & ANNUITIES

Operating Results

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Premiums and deposits	$ **1,769**	$ 1,446	22%	$ **6,803**	$ 7,897	-14%
Sales	**1,349**	1,058	28%	**5,004**	6,087	-18%
Fee and other income	**168**	164	2%	**623**	649	-4%
Net income	**169**	121	40%	**560**	485	15%

Premiums and deposits

In quarter

Premiums and deposits increased by $323 million compared to the fourth quarter of 2007. The increase reflects strong growth in net premiums of payout annuities and savings products in the U.K. and Isle of Man partially offset by lower sales of savings and pension products in Ireland.

Twelve months

Premiums and deposits decreased by $1,094 million compared to 2007. The decrease reflects lower sales in the Isle of Man and Ireland, particularly in savings and pension products, and currency movement partly offset by strong growth in sales of payout annuities in the U.K.

Sales

In quarter

Sales increased by $291 million compared to the fourth quarter of 2007. The increase is primarily due to strong growth in payout annuities and savings products in the U.K. and Isle of Man partly offset by lower sales in Ireland and Germany, largely reflecting the continuing effect of financial market volatility and competitive conditions. Sales growth was also tempered by currency movement.

Twelve months

Sales decreased by $1,083 million for the full year. The decrease is primarily due to lower sales in savings and pension products in the U.K., Isle of Man, Ireland and Germany, reflecting the continuing effect of financial market volatility as well as currency movement. The decrease was tempered by strong growth of payout annuity sales in the U.K.

Fee and other income

In quarter

Fee and other income increased by $4 million compared to the fourth quarter of 2007 due to growth in the U.K. and Isle of Man and currency movement. Partially offsetting these increases was lower fee income in Ireland due to lower business levels and lower average equity market levels.

Twelve months

Fee and other income decreased by $26 million compared to 2007 due to decreases in Germany and Ireland partially offset by growth in the U.K. and Isle of Man. Fee income in Germany was higher during the first three quarters of 2007 due to fees associated with a sales surge on products that generated higher related fees up to and including the third quarter of 2007. Fee income was lower in Ireland due to lower business levels and lower average equity market levels.

Net income

In quarter

Net income attributable to common shareholders was $169 million, an increase of 40% compared to last year. The increase reflects improved mortality experience, new business and investment gains, particularly in the U.K. payout annuity business partly offset by lower results of the wealth management businesses in Ireland and the U.K. due to lower business levels largely attributable to declines in average equity market levels. Partly offsetting the income increase was a favourable settlement adjustment, relating to the payout annuity block of business acquired from Phoenix & London in 2005, which contributed to income in 2007. Strengthening of actuarial reserves were also included in the 2007 results.

Twelve months

Net income attributable to common shareholders was $560 million, an increase of $75 million from 2007. The results include asset impairment charges of $47 million after-tax and the impact of currency movement. The results reflect improved mortality and morbidity experience and new business gains, particularly in the U.K. group protection and payout annuity businesses and higher investment gains. These increases were partly offset by lower contribution from the Ireland and U.K. wealth management businesses and a favourable settlement adjustment, relating to the block of business acquired from Phoenix & London in 2005, which contributed to income in 2007. Strengthening of actuarial reserves were also included in the 2007 results.

In addition to the specific asset impairment charges, the Company increased its actuarial credit provisions during the year as a result of a deterioration in the credit environment. This included downgrades in credit ratings assigned to financial guarantors that have provided guarantees in connection with certain investments held by the Company.

OUTLOOK – INSURANCE & ANNUITIES

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.

The current outlook is that fee income and revenues will be reduced due to lower asset values and lower sales activity. The Europe operating unit is seeking ways to increase efficiencies and raise revenues to counter this situation.

The Company made positive strides in the development and rolling out of a European wide technology platform initiative which enhances the ability of Independent Financial Advisors (IFAs) to interact with the Company as well as investments in technology to create additional efficiencies and ease of use for Advisors, to reconfigure and to modernize information technology infrastructure across the European operations. The Company will continue to implement these initiatives in 2009.

The Company continues to look for further opportunities to capitalize on the strong market positions in its core businesses and to expand on its distribution capabilities.

United Kingdom/Isle of Man – The Company continues to grow profitably in each of its core businesses and has established itself in strong market positions in each, group insurance, payout annuities and wealth management where, both onshore and offshore, Canada Life is a top ten unit-linked single premium bond provider in the U.K. IFAs will remain our key distribution focus and we will invest in developing our links with IFAs in 2009 to reinforce our relationships with them from a strong market position.

The positive outlook described last year for the payout annuity business was maintained throughout the year with a record amount of new business written, mainly through IFAs. We launched an enhanced annuity product which has proved to be a successful addition to our annuity portfolio in its first year. We expect to further grow the enhanced annuity business in 2009. The outlook for payout annuities generally in 2009 is more mixed with market volatility of late pointing to greater uncertainty going forward.

The Company's strategy in the single premium investment market continues to focus on IFAs. Despite a difficult year in 2008 for all investments Canada Life has generally maintained its share of the market and expects to maintain its presence in both the onshore and offshore segments. When investor confidence does return, Canada Life expects to be well placed to compete in the market place.

The overall outlook for the group protection businesses continues to be positive. As well as being a leading player in Group Life and Income Protection, the Company is the market leader in its technology platform offering to IFAs for small sized schemes. As the recession in the U.K. takes hold in 2009, the Company expects employers generally to suffer in the economic downturn as a result of which the group operations are likely to experience a more difficult period in 2009.

Overall, the progress we have made in the last few years establishing strong product market positions in our chosen segments, using an efficient cost base and prudent financial management, will stand the Company in good stead in the immediate future. The Company is well placed for the difficulties in the markets in the short term and the challenges of continuing to grow a profitable business going forward.

Ireland – In Ireland, the 'Celtic Tiger' economy, which had fuelled high rates of economic growth for the previous decade, slowed abruptly in 2008 with the Irish economy officially moving into recession. This dramatic slow down in economic activity resulting from the international financial crisis had a severe impact on the property market in Ireland. The Irish Stock Exchange fell in value by 66% in 2008, significantly underperforming other markets.

Current market conditions do not indicate there will be an improvement in the Irish life insurance market for 2009. Customers remain cautious, and reluctant to invest in the current market. The Company will continue to leverage its strong presence to grow in the pensions market in 2009. The emphasis in 2009 will be on strengthening our administration and product support services to target segments of the independent intermediary market.

Germany – Although domestic demand was strong in 2008, Germany, as one of the world's largest exporters, was not immune to the international economic crisis. The country slipped into recession in the third quarter of 2008 and most forecasts do not project a return to growth until 2010. Despite the current economic conditions, the fundamentals for growth in the German life insurance sector remain positive. Relatively low levels of insurance penetration combined with reductions in state pension provision and changes to the taxation of direct investments, create significant growth potential for life insurance companies.

Canada Life plans to launch new innovative products in 2009, aiming to benefit from the increasing interest in variable annuity and single premium savings products. We also expect to use these products to broaden our distribution capability through relationships with private banks and investment fund providers. With the major reforms of the last few years apparently completed, we also hope to benefit from a more stable legislative and taxation environment.

REINSURANCE

Operating Results

	For the three months ended December 31			For the twelve months ended December 31		
	2008	2007	% Change	2008	2007	% Change
Premiums and deposits	$ **954**	$ 1,359	-30%	$ **16,311**	$ 5,044	–
Fee and other income	**10**	17	-41%	**25**	24	4%
Net income	**58**	30	93%	**186**	122	52%

Premiums and deposits

In quarter

Premiums and deposits for the Reinsurance business were $954 million, a decrease of $405 million from the fourth quarter of 2007. The decrease is due to the commutation of a structured life reinsurance contract in 2007 partially offset by new business and favourable currency movement.

Twelve months

Premiums and deposits increased by $11,267 million from 2007. The increase is primarily driven by assumed business from the Standard Life transaction, new business and commutation of structured life contracts in 2008 partly offset by unfavourable currency movement. The 2007 premium results also included the commutation of structured life contracts.

Fee and other income

In quarter

Fee and other income for the quarter was $10 million, a decrease of $7 million. The decrease mostly reflects additional fees earned in 2007 on reinsurance treaties and a decrease in fees earned in connection with certain reinsurance transactions with Lifeco subsidiary companies partly offset by favourable currency movement.

Twelve months

Fee and other income for the year was $25 million, slightly higher than the $24 million earned in the prior year.

Net income

In quarter

Net income was $58 million, an increase of $28 million from the fourth quarter of 2007. The increase reflects the contribution from the Standard Life transaction, higher renewal profits, investment, commutation gains and favourable currency movement, partly offset by strengthening of actuarial liabilities and provisions.

Twelve months

Net income for the twelve month period was $186 million, an increase of $64 million from the prior year. The results include asset impairment charges of $7 million. The increase in income is due to contribution from the Standard Life transaction, higher renewal profits, investment and commutation gains and favourable morbidity experience partially offset by unfavourable lapse experience and strengthening of actuarial liabilities and provisions.

OUTLOOK – REINSURANCE

Refer to Cautionary Note regarding Forward-looking Information and Cautionary Note regarding Non-GAAP Financial Measures at the beginning of this document.

The U.S. life reinsurance industry is expected to rebound in 2009 after several years of declining sales levels. Reduced availability of alternative solutions should result in higher cession rates to reinsurers. The Company expects continued growth in this line, building on the complementary strengths of Canada Life and LRG in adaptive product solutions and strong client relationships.

Pricing in the property catastrophe retrocession market is expected to hold or strengthen further in 2009, given pressure on asset values and reduced capital market capacity. Technical pricing remains above historic norms given the new reality of increased modeled loss exposures and more rigorous rating agency stress testing of capital positions.

EUROPE CORPORATE

The Corporate account includes financing charges, the impact of certain non-continuing items as well as the results for the non-core international businesses.

Net income

In quarter

Net income for the quarter was a charge of $3 million, compared to a charge of $1 million for the prior year. The 2007 results included gains related to the divestiture of certain international operations.

Twelve months

Net income for 2008 was a charge of $20 million compared to net income of $4 million in the same period of 2007. The charge in 2008 primarily relates to financing charges of $13 million and two non-recurring charges. The 2007 results also included financing charges of $13 million which were offset by one-time gains that contributed $17 million to net income.

LIFECO CORPORATE OPERATING RESULTS

The Lifeco Corporate segment includes operating results for activities of Lifeco that are not associated with the major business units of the Company.

Net income

In quarter

Corporate net income was a charge of $9 million in 2008 compared to nil in 2007, due to unfavourable currency movement on certain foreign currency liabilities.

Twelve months

Corporate net income was a charge of $20 million in 2008 compared to nil in 2007, for the same reason as the in quarter period.

OTHER INFORMATION

SELECTED ANNUAL INFORMATION (in $ millions, except per share amounts)

	Years ended December 31		
	2008	2007	2006
Total revenue [1]	**$ 33,932**	$ 25,923	$ 25,482
Net income – common shareholders			
Net income – continuing operations – adjusted	**$ 2,018**	$ 1,950	$ 1,684
Adjustments after tax	**(665)**	(97)	–
Net income – continuing operations	**704**	1,853	1,684
Net income	**1,396**	2,056	1,875
Net income per common share			
Basic – adjusted – continuing operations	**$ 2.255**	$ 2.185	$ 1.889
Basic – continuing operations	**0.787**	2.076	1.889
Diluted – continuing operations	**0.783**	2.061	1.876
Basic – adjusted	**2.303**	2.413	2.104
Basic	**1.560**	2.304	2.104
Diluted	**1.553**	2.287	2.089
Total assets [1]			
General fund assets	**$ 130,074**	$ 118,194	$ 120,431
Segregated funds net assets	**77,748**	89,181	90,146
Proprietary mutual funds and institutional net assets [2]	**131,122**	179,162	1,907
Total assets under administration	**338,944**	386,537	212,484
Total general fund liabilities [1]	**$ 113,104**	$ 103,439	$ 105,668
Dividends paid per share			
Series D First Preferred	**$ 1.1750**	$ 1.1750	$ 1.1750
Series E First Preferred	**1.2000**	1.2000	1.2000
Series F First Preferred	**1.4750**	1.4750	1.4750
Series G First Preferred	**1.3000**	1.3000	1.3000
Series H First Preferred	**1.21252**	1.21252	1.21252
Series I First Preferred	**1.1250**	1.1250	0.80599
Series J First Preferred	**–**	–	–
Common	**1.200**	1.060	0.9275

(1) Continuing operations
(2) Excludes Putnam Prime Money Market Fund

Quarterly Financial Information

			Common Shareholders								
			Net income			Net income – adjusted			Net income – adjusted continuing operations		
		Total revenue (1)	Total	per share Basic	per share Diluted	Total	per share Basic	per share Diluted	Total	per share Basic	per share Diluted
2008	**Fourth quarter**	**$ 6,580**	**$ (907)**	**$ (1.011)**	**$ (1.009)**	**$ 525**	**$ 0.586**	**$ 0.585**	**$ 525**	**$ 0.586**	**$ 0.585**
	Third quarter	3,971	436	0.487	0.485	436	0.487	0.485	436	0.487	0.485
	Second quarter	5,382	1,213	1.356	1.350	564	0.630	0.627	564	0.630	0.627
	First quarter	17,999	654	0.732	0.728	536	0.600	0.596	493	0.552	0.548
2007	Fourth quarter	8,750	537	0.601	0.597	537	0.601	0.597	494	0.553	0.549
	Third quarter	6,199	461	0.516	0.513	558	0.625	0.621	508	0.569	0.565
	Second quarter	4,102	544	0.610	0.606	544	0.610	0.606	490	0.549	0.546
	First quarter	6,872	514	0.576	0.572	514	0.576	0.572	458	0.513	0.510

(1) Continuing operations

(2) Adjusted net income is presented as a non-GAAP financial measure of earnings performance before certain non-recurring adjustments. Refer to "Non-GAAP Financial Measures" section of this report.

		Total	per share Basic	per share Diluted
Adjustments to net income – common shareholders:				
2008 Fourth quarter	Goodwill and intangible assets impairment	$ (1,353)	$ (1.508)	$ (1.505)
	Valuation allowance, income tax	(34)	(0.038)	(0.038)
	Restructuring costs	(45)	(0.051)	(0.051)
Second quarter	Gain realized from the sale of GWL&A health care business	649	0.726	0.723
First quarter	Gain realized in connection with the termination of a long standing assumption reinsurance agreement and reserve strengthening of GWL&A's continuing operations	118	0.132	0.132
2007 Third quarter	After-tax provision for certain Canadian retirement plans	(97)	(0.109)	(0.108)

Summary of Quarterly Results

Including discontinued operations, Lifeco's net income attributable to common shareholders was a charge of $907 million for the fourth quarter of 2008 compared to $537 million reported a year ago, a decrease of $1,444 million. On a per share basis, this represents a charge of $1.011 per common share ($1.009 diluted) for the fourth quarter of 2008 compared to income of $0.601 per common share ($0.597 diluted) a year ago.

Total revenue for the fourth quarter of 2008 was $6,580 million and was comprised of premium income of $4,782 million, regular net investment income of $1,423 million, change in fair value of held for trading assets of $(368) million, and fee and other income of $743 million. Total revenue for the fourth quarter of 2007 was $8,750 million, comprised of premium income of $5,764 million, regular net investment income of $1,304 million, change in fair value of held for trading assets of $821 million and fee and other income of $861 million.

Disclosure Controls and Procedures

Based on their evaluations as of December 31, 2008, the President and Chief Executive Officer, and the Executive Vice-President and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective at the reasonable assurance level in ensuring that information relating to the Company which is required to be disclosed in reports filed under provincial and territorial securities legislation is: (a) recorded, processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation, and (b) accumulated and communicated to the Company's senior management, including the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Internal Control Over Financial Reporting

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for Lifeco. All internal control systems have inherent limitations and may become inadequate because of changes in conditions. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management, under the supervision of the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer, has evaluated the effectiveness of Lifeco's internal control over financial reporting based on the *Internal Control – Integrated Framework* (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission.

As at December 31, 2008, management assessed the effectiveness of the Company's internal control over financial reporting and concluded that such internal control over financial reporting is effective and that there are no material weaknesses in the Company's internal control over financial reporting that have been identified by management.

There have been no changes in the Company's internal control over financial reporting during the year ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Transactions with Related Parties

In the normal course of business, Great-West Life provided insurance benefits to other companies within the Power Financial Corporation, Lifeco's parent, group of companies. In all cases, transactions were at market terms and conditions.

During the year, Great-West Life provided to and received from IGM Financial Inc. and its subsidiaries (IGM), a member of the Power Financial Corporation group of companies, certain administrative services. Great-West Life also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. London Life provided distribution services to IGM. All transactions were provided on terms and conditions at least as favourable as market terms and conditions.

At December 31, 2008 the Company held $36 million ($13 million in 2007) of debentures issued by IGM.

During 2008, Great-West Life, London Life, and segregated funds maintained by London Life purchased residential mortgages of $144 million from IGM ($154 million in 2007). Great-West Life, London Life and Canada Life sold residential mortgages of $3 million ($4 million in 2007) to segregated funds maintained by Great-West Life and $66 million ($98 million in 2007) to segregated funds maintained by London Life. All transactions were at market terms and conditions.

Translation of Foreign Currency

Through its operating subsidiaries, Lifeco conducts business in multiple currencies. The four primary currencies are the Canadian dollar, the United States dollar, the British pound, and the euro. Throughout this document, foreign currency assets and liabilities are translated into Canadian dollars at the market rate at the end of the financial period. All income and expense items are translated at an average rate for the period. The rates employed are:

Translation of foreign currency

Period ended	Dec. 31 2008	Sept. 30 2008	June 30 2008	Mar. 31 2008	Dec. 31 2007	Sept. 30 2007	June 30 2007	Mar. 31 2007
United States dollar								
Balance sheet	$ 1.22	$ 1.06	$ 1.02	$ 1.03	$ 0.99	$ 1.00	$ 1.06	$ 1.15
Income and expenses	$ 1.21	$ 1.04	$ 1.01	$ 1.00	$ 0.98	$ 1.05	$ 1.10	$ 1.17
British pound								
Balance sheet	$ 1.79	$ 1.89	$ 2.03	$ 2.04	$ 1.96	$ 2.03	$ 2.13	$ 2.27
Income and expenses	$ 1.90	$ 1.97	$ 1.99	$ 1.99	$ 2.01	$ 2.11	$ 2.18	$ 2.29
Euro								
Balance sheet	$ 1.70	$ 1.49	$ 1.60	$ 1.62	$ 1.44	$ 1.42	$ 1.44	$ 1.54
Income and expenses	$ 1.60	$ 1.56	$ 1.58	$ 1.50	$ 1.42	$ 1.44	$ 1.48	$ 1.54

Segregated and Mutual Funds Deposits and Self-funded Premium Equivalents (ASO Contracts)

The financial statements of a life insurance company do not include the assets, liabilities, deposits and withdrawals of segregated funds, mutual funds or the claims payments related to administrative services only (ASO) group health contracts. However, the Company does earn fee and other income related to these contracts. Segregated funds, mutual funds and ASO contracts are an important aspect of the overall business of the Company and should be considered when comparing volumes, size and trends.

Additional information relating to Lifeco, including Lifeco's most recent financial statements, CEO/CFO certification and Annual Information Form are available at **www.sedar.com**.

FINANCIAL REPORTING RESPONSIBILITY

The consolidated financial statements are the responsibility of management and are prepared in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the annual report is consistent with that in the consolidated financial statements. The consolidated financial statements necessarily include amounts that are based on management's best estimates. These estimates are based on careful judgments and have been properly reflected in the consolidated financial statements. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the consolidated financial statements present fairly, in all material respects, the financial position of the Company and the results of its operations and its cash flows in accordance with Canadian generally accepted accounting principles.

In carrying out its responsibilities, management maintains appropriate internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements were approved by the Board of Directors, which has oversight responsibilities with respect to financial reporting. The Board of Directors carries out this responsibility principally through the Audit Committee, which is comprised of independent directors. The Audit Committee is charged with, among other things, the responsibility to:

- Review the interim and annual consolidated financial statements and report thereon to the Board of Directors.
- Review internal control procedures.
- Review the independence of the external auditors and the terms of their engagement and recommend the appointment and compensation of the external auditors to the Board of Directors.
- Review other audit, accounting and financial reporting matters as required.

In carrying out the above responsibilities, this Committee meets regularly with management, and with both the Company's external and internal auditors to review their respective audit plans and to review their audit findings. The Committee is readily accessible to the external and internal auditors.

The Board of Directors of each of The Great-West Life Assurance Company and Great-West Life & Annuity Insurance Company, appoints an Actuary who is a Fellow of the Canadian Institute of Actuaries. The Actuary:

- Ensures that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations and directives.
- Provides an opinion regarding the appropriateness of the policy liabilities at the balance sheet date to meet all policyholder obligations. Examination of supporting data for accuracy and completeness and analysis of assets for their ability to support the policy liabilities are important elements of the work required to form this opinion.

Deloitte & Touche LLP Chartered Accountants, as the Company's external auditors, have audited the consolidated financial statements. The Auditors' Report to the Shareholders and Directors is presented following the consolidated financial statements. Their opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary in order to obtain reasonable assurance that the consolidated financial statements present fairly, in all material respects, the financial position of the Company and the results of its operations and its cash flows in accordance with Canadian generally accepted accounting principles.

D. Allen Loney
President and
Chief Executive Officer

William W. Lovatt
Executive Vice-President and
Chief Financial Officer

February 12, 2009

SUMMARIES OF CONSOLIDATED OPERATIONS

(in $ millions except per share amounts)

For the years ended December 31	2008	2007
Income		
Premium income	$ 30,007	$ 18,753
Net investment income (note 4)		
Regular net investment income	5,962	5,565
Changes in fair value on held for trading assets	(5,161)	(1,098)
Total net investment income	801	4,467
Fee and other income	3,124	2,703
	33,932	25,923
Benefits and expenses		
Policyholder benefits	16,784	16,186
Policyholder dividends and experience refunds	1,348	1,137
Change in actuarial liabilities	8,642	1,799
Total paid or credited to policyholders	26,774	19,122
Commissions	1,353	1,366
Operating expenses	2,622	2,260
Premium taxes	223	225
Financing charges (note 10)	296	269
Amortization of finite life intangible assets	41	32
Restructuring costs (note 3)	70	–
Intangible and goodwill impairment (note 7)	2,178	–
Net income from continuing operations before income taxes	375	2,649
Income taxes – current (note 22)	334	696
– future (note 22)	(612)	(114)
Net income from continuing operations before non-controlling interests	653	2,067
Non-controlling interests (note 14)	(108)	159
Net income from continuing operations	761	1,908
Net income from discontinued operations (note 2)	692	203
Net income	1,453	2,111
Perpetual preferred share dividends	57	55
Net income – common shareholders	$ 1,396	$ 2,056
Earnings per common share (note 19)		
Basic	$ 1.560	$ 2.304
Diluted	$ 1.553	$ 2.287

CONSOLIDATED BALANCE SHEETS

(in $ millions)

December 31	2008	2007
Assets		
Bonds (note 4)	$ 66,554	$ 65,069
Mortgage loans (note 4)	17,444	15,869
Stocks (note 4)	5,394	6,543
Real estate (note 4)	3,188	2,547
Loans to policyholders	7,622	6,317
Cash and cash equivalents	2,850	3,650
Funds held by ceding insurers	11,447	1,512
Assets of operations held for sale (note 2)	–	697
Goodwill (note 7)	5,425	6,295
Intangible assets (note 7)	3,372	3,917
Other assets (note 8)	6,778	5,778
Total assets	$ 130,074	$ 118,194
Liabilities		
Policy liabilities		
Actuarial liabilities (note 9)	$ 97,895	$ 87,487
Provision for claims	1,466	1,315
Provision for policyholder dividends	630	600
Provision for experience rating refunds	310	310
Policyholder funds	2,326	2,160
	102,627	91,872
Debentures and other debt instruments (note 11)	3,821	5,241
Funds held under reinsurance contracts	192	164
Other liabilities (note 12)	5,969	5,211
Liabilities of operations for sale (note 2)	–	428
Repurchase agreements	334	344
Deferred net realized gains	161	179
	113,104	103,439
Preferred shares (note 15)	752	786
Capital trust securities and debentures (note 13)	658	639
Non-controlling interests (note 14)		
Participating account surplus in subsidiaries	2,012	2,103
Preferred shares issued by subsidiaries	157	157
Perpetual preferred shares issued by subsidiaries	150	152
Non-controlling interests in capital stock and surplus	13	10
Share capital and surplus		
Share capital (note 15)		
Perpetual preferred shares	1,329	1,099
Common shares	5,736	4,709
Accumulated surplus	6,906	6,599
Accumulated other comprehensive income (loss)	(787)	(1,533)
Contributed surplus	44	34
	13,228	10,908
Total liabilities, share capital and surplus	$ 130,074	$ 118,194

Approved by the Board:

Director Director

CONSOLIDATED STATEMENTS OF SURPLUS

(in $ millions)

For the years ended December 31	2008	2007
Accumulated surplus		
Balance, beginning of year	$ 6,599	$ 5,858
Change in accounting policy (note 1(a))	–	(368)
Net income	1,453	2,111
Share issue costs (note 15)	(21)	–
Repatriation of Canada Life seed capital from participating policyholder account (note 14)	5	–
Dividends to shareholders		
Perpetual preferred shareholders	(57)	(55)
Common shareholders	(1,073)	(947)
Balance, end of year	$ 6,906	$ 6,599
Accumulated other comprehensive income (loss), net of income taxes (note 20)		
Balance, beginning of year	$ (1,533)	$ (547)
Change in accounting policy (note 1(a))	–	257
Other comprehensive income (loss)	746	(1,243)
Balance, end of year	$ (787)	$ (1,533)
Contributed surplus		
Balance, beginning of year	$ 34	$ 28
Stock option expense		
Current year expense (note 17)	11	8
Exercised	(1)	(2)
Balance, end of year	$ 44	$ 34

SUMMARIES OF CONSOLIDATED COMPREHENSIVE INCOME

(in $ millions)

For the years ended December 31	2008	2007
Net income	$ 1,453	$ 2,111
Other comprehensive income (loss), net of income taxes		
Unrealized foreign exchange gains (losses) on translation of foreign operations	1,196	(1,210)
Unrealized gains (losses) on available-for-sale assets	(171)	(52)
Realized (gains) losses on available-for-sale assets	(39)	(45)
Unrealized gains (losses) on cash flow hedges	(209)	(23)
Realized (gains) losses on cash flow hedges	(1)	36
Non-controlling interests	(30)	51
	746	(1,243)
Comprehensive income	$ 2,199	$ 868

Income tax (expense) benefit included in other comprehensive income

For the years ended December 31	2008	2007
Unrealized foreign exchange gains (losses) on translation of foreign operations	$ (1)	$ –
Unrealized gains (losses) on available-for-sale assets	87	15
Realized (gains) losses on available-for-sale assets	14	20
Unrealized gains (losses) on cash flow hedges	113	13
Realized (gains) losses on cash flow hedges	1	(19)
Non-controlling interests	(2)	(5)
	$ 212	$ 24

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in $ millions)

For the years ended December 31	2008	2007
Operations		
Net income	$ 1,453	$ 2,111
Adjustments:		
Change in policy liabilities	(3,249)	57
Change in funds held by ceding insurers	1,306	658
Change in funds held under reinsurance contracts	50	65
Change in current income taxes payable	(397)	(129)
Future income tax expense	(612)	(114)
Gain on disposal of business, after-tax (note 2)	(649)	–
Changes in fair value of financial instruments	5,128	1,058
Intangible and goodwill impairment (note 7)	2,178	–
Other	(1,345)	25
Cash flows from operations	3,863	3,731
Financing activities		
Issue of common shares	1,027	33
Issue of preferred shares	230	–
Partial repayment of five year term facility in subsidiary	(198)	–
Redemption of preferred shares	–	(1)
Redemption of preferred shares in subsidiary	–	(52)
Issue of subordinated debentures in subsidiary	500	1,000
Issue of five year term facility in subsidiary	–	495
Drawdown on credit facility	–	3,007
Repayments on credit facility	(1,886)	(1,055)
Increase in line of credit in subsidiary	118	–
Repayment of debentures and other debt instruments	(194)	(3)
Share issue costs	(21)	–
Dividends paid	(1,130)	(1,002)
	(1,554)	2,422
Investment activities		
Bond sales and maturities	17,669	24,436
Mortgage loan repayments	1,952	1,833
Stock sales	2,201	2,459
Real estate sales	84	169
Change in loans to policyholders	(329)	(265)
Change in repurchase agreements	33	(686)
Acquisition of intangible assets (note 7)	(20)	–
Acquisition of business (note 2)	–	(4,155)
Disposal of business (note 2)	1,375	6
Investment in bonds	(19,300)	(21,848)
Investment in mortgage loans	(3,374)	(3,225)
Investment in stocks	(2,707)	(3,185)
Investment in real estate	(876)	(740)
	(3,292)	(5,201)
Effect of changes in exchange rates on cash and cash equivalents	157	(359)
Increase (decrease) in cash and cash equivalents	(826)	593
Cash and cash equivalents from continuing and discontinued operations, beginning of year	3,676	3,083
Cash and cash equivalents from continuing and discontinued operations, end of year	2,850	3,676
Cash and cash equivalents from discontinued operations, end of year	–	(26)
Cash and cash equivalents from continuing operations, end of year	$ 2,850	$ 3,650
Supplementary cash flow information		
Income taxes paid	$ 1,136	$ 852
Interest paid	$ 301	$ 276

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in $ millions except per share amounts)

1. Basis of Presentation and Summary of Accounting Policies

The consolidated financial statements of Great-West Lifeco Inc. (Lifeco or the Company) have been prepared in accordance with Canadian generally accepted accounting principles and include the consolidated accounts of its major operating subsidiary companies, The Great-West Life Assurance Company (Great-West Life), London Life Insurance Company (London Life), The Canada Life Assurance Company (Canada Life), Great-West Life & Annuity Insurance Company (GWL&A) and Putnam Investments, LLC (Putnam LLC).

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. The valuation of actuarial liabilities, certain financial assets and liabilities, goodwill and indefinite life intangible assets, income taxes and pension plans and other post retirement benefits are the most significant components of the Company's financial statements subject to management estimates.

The year to date results of the Company reflect management's judgments regarding the impact of prevailing global credit, equity and foreign exchange market conditions. Financial instrument carrying values currently reflect the illiquidity of the markets and the liquidity premiums embedded in the market pricing methods the Company relies upon.

The estimation of actuarial liabilities relies upon investment credit ratings. The Company's practice is to use third party independent credit ratings where available. Credit rating changes may lag developments in the current environment. Subsequent credit rating adjustments will impact actuarial liabilities.

In addition to the Company's direct investments in certain financial institutions, the Company has contractual business relationships with these financial institutions. Given the current uncertainty associated with these entities, normal business conditions do not prevail and the Company's contractual business relationships may be impacted.

Given the uncertainty surrounding the continued volatility in these markets, and the general lack of liquidity in financial markets, the actual financial results could differ from those estimates.

The significant accounting policies are as follows:

(a) Changes in Accounting Policy

Capital Disclosures

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures*. The section establishes standards for disclosing information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The new requirements are for disclosure only and did not impact the financial results of the Company.

Financial Instrument Disclosure and Presentation

Effective January 1, 2008, the Company adopted the CICA Handbook Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*. These sections replace existing Section 3861, *Financial Instruments – Disclosure and Presentation*. Presentation standards are carried forward unchanged. Disclosure standards are enhanced and expanded to complement the changes in accounting policy adopted in accordance with Section 3855, *Financial Instruments – Recognition and Measurement* during 2007.

Financial Instruments Recognition and Measurement

On January 1, 2007, the Company adopted the following new accounting standards issued by the CICA: Handbook Section 1530, *Comprehensive Income*; Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3865, *Hedges*; and Section 4211, *Life Insurance Enterprises*. The Company also adopted The Office of the Superintendent of Financial Institutions Canada Guideline D-10, *Accounting for Financial Instruments Designated as "Held for Trading" (Fair Value Option)* (OSFI D-10), which provides additional guidance to certain federally regulated financial institutions, including life insurance companies.

Under the new guidance, all financial assets must be classified as available for sale, held for trading, held to maturity, or loans and receivables. Derivatives are classified as held for trading or other if it is a designated and effective hedging instrument. All financial liabilities must be classified as held for trading or other. All financial instruments classified as available for sale or held for trading are recognized at fair value on the Consolidated Balance Sheets while financial instruments classified as loans and receivables or other will continue to be measured at amortized cost using the effective interest rate method. The standards allow the Company to designate certain financial instruments, on initial recognition, as held for trading. This option has been limited by the requirements of OSFI D-10.

Changes in the fair value of financial instruments classified as held for trading are reported in net income. Unrealized gains or losses on financial instruments classified as available for sale are reported in other comprehensive income (OCI) and will be reported in net income when they are realized by the Company.

The Company is required to present a new statement of comprehensive income and its components, as well as the components of accumulated other comprehensive income (AOCI), in its financial statements. Comprehensive income includes both net income and OCI. Major components of OCI include changes in unrealized gains and losses on financial assets classified as available for sale, changes in fair value on certain derivative instruments and currency translation gains and losses on self-sustaining foreign subsidiary operations.

Unless otherwise stated below, financial assets and liabilities will remain on the Consolidated Balance Sheets at amortized cost.

Certain investments, primarily investments normally actively traded in a public market, and certain financial liabilities are measured at their fair value. Investments backing actuarial liabilities, investments backing participating account surplus in Canada Life, and preferred shares classified as liabilities are designated as held for trading using the fair value option. Changes in the fair value of these investments flow through net income. This impact is largely offset by corresponding changes in the actuarial liabilities which also flow through net income. Investments backing shareholder capital and surplus, with the exception of the investments backing participating account surplus in Canada Life, are classified as available for sale. Unrealized gains and losses on these investments flow through OCI until they are realized. Certain investment portfolios are classified as held for trading as a reflection of their underlying nature. Changes in the fair value of these investments flow through net income. There has been no change to the Company's method of accounting for real estate or loans.

Derivative instruments, previously off-balance sheet, are recognized at their fair value on the Consolidated Balance Sheets. Changes in the fair value of derivatives are recognized in net income except for derivatives designated as effective cash flow hedges.

Derivatives embedded in financial instruments, or other contracts, which are not closely related to the host financial instrument, or contract, must be bifurcated and recognized independently. The Company chose a transition date of January 1, 2003 for embedded derivatives and therefore will only be required to account separately for those embedded derivatives in hybrid instruments issued, acquired or substantially modified after that date. The change in accounting policy related to embedded derivatives did not have a significant impact on the financial statements of the Company.

Three types of hedging relationships are permitted under the new guidance: fair value hedges, cash flow hedges, and hedges of net investments in self-sustaining foreign operations. Changes in fair value hedges are recognized in net income. The effective portion of cash flow hedges and hedges of net investments in self-sustaining foreign operations is recorded in OCI until the variability in cash flows being hedged is recognized in net income.

Trade-date accounting will be used to account for all purchase or sale of investments traded on a public market and derivative instruments. Settlement-date accounting will be used to account for all purchase or sale of investments not traded on a public market.

Transaction costs for financial assets and liabilities classified or designated as held for trading will be recognized immediately in net income. Transaction costs for financial assets classified as available for sale or loans and receivables will be added to the value of the instrument at acquisition and be taken into net income using the effective interest rate method. Transaction costs for financial liabilities classified as other than held for trading will be recognized immediately in net income.

On January 1, 2007, transition adjustments were made to certain existing financial instruments to adjust their carrying value to market, to recognize derivative financial instruments on the balance sheet, to eliminate the recognition of deferred realized gains with corresponding adjustments to actuarial liabilities and opening accumulated surplus. The transition adjustments resulted in an increase in total assets of $1,478, an increase in policy and other liabilities of $1,460, an increase in non-controlling interest of $129, an increase in AOCI of $257 and a decrease in accumulated surplus of $368.

(b) Portfolio Investments

Portfolio investments are classified as held for trading, available for sale, held to maturity, loans and receivables or as non-financial instruments based on management's intention or characteristics of the investment. The Company currently has not classified any investments as held to maturity.

Investments in bonds and stocks normally actively traded on a public market are designated or classified as either held for trading or classified as available for sale on a trade date basis, based on management's intention. Held for trading investments are recognized at fair value on the Consolidated Balance Sheets with realized and unrealized gains and losses reported in the Summaries of Consolidated Operations. Available for sale investments are recognized at fair value on the Consolidated Balance Sheets with unrealized gains and losses recorded in OCI. Realized gains and losses are reclassified from OCI and recorded in the Summaries of Consolidated Operations when the available for sale investment is sold. Interest income earned on both held for trading and available for sale bonds is recorded as investment income earned in the Summaries of Consolidated Operations.

1. Basis of Presentation and Summary of Accounting Policies (cont'd)

Investments in equity instruments where a market value cannot be measured reliably are classified as available for sale and carried at cost. Investments in stocks for which the Company exerts significant influence over but does not control are accounted for using the equity method of accounting (see note 4).

Investments in mortgages and bonds not normally actively traded on a public market are classified as loans and receivables and are carried at amortized cost net of any allowance for credit losses. Interest income earned and realized gains and losses on the sale of investments classified as loans and receivables are recorded in the Summaries of Consolidated Operations and included in investment income earned.

Investments in real estate are carried at cost net of write-downs and allowances for loss, plus a moving average market value adjustment of $213 ($210 in 2007) on the Consolidated Balance Sheets. The carrying value is adjusted towards market value at a rate of 3% per quarter. Net realized gains and losses are included in Deferred Net Realized Gains on the Consolidated Balance Sheets and are deferred and amortized to income at a rate of 3% per quarter on a declining balance basis.

Fair Value Measurement

Financial instrument carrying values necessarily reflect the prevailing market liquidity and the liquidity premiums embedded in the market pricing methods the Company relies upon.

Fair values for bonds classified as held for trading or available for sale are determined using quoted market prices. Where prices are not quoted in a normally active market, fair values are determined by valuation models primarily using observable market data inputs. Market values for bonds and mortgages classified as loans and receivables are determined by discounting expected future cash flows using current market rates.

Fair values for public stocks are generally determined by the last bid price for the security from the exchange where it is principally traded. Fair values for stocks for which there is no active market are determined by discounting expected future cash flows. Where market value cannot be measured reliably, fair value is estimated to be equal to cost. Market values for real estate are determined using independent appraisal services and include management adjustments for material changes in property cash flows, capital expenditures or general market conditions in the interim period between appraisals.

Impairment

Investments are reviewed regularly on an individual basis to determine impairment status. The Company considers various factors in the impairment evaluation process, including, but not limited to, the financial condition of the issuer, specific adverse conditions affecting an industry or region, decline in fair value not related to interest rates, bankruptcy or defaults and delinquency in payments of interest or principal. Investments are deemed to have an other than temporary impairment when there is no longer reasonable assurance of timely collection of the full amount of the principal and interest due or the Company does not have the intent to hold the investment until the value has recovered. The market value of an investment is not a definitive indicator of impairment, as it may be significantly influenced by other factors including the remaining term to maturity and liquidity of the asset. However market price must be taken into consideration when evaluating other than temporary impairment.

For impaired mortgages and bonds classified as loans and receivables, provisions are established or write-offs made to adjust the carrying value to the net realizable amount. Wherever possible the fair value of collateral underlying the loans or observable market price is used to establish net realizable value. For impaired available for sale loans, recorded at fair value, the accumulated loss recorded in AOCI is reclassified to net investment income. Once an impairment loss on an available for sale asset is recorded in income it is not reversed. All gains and losses on bonds classified or designated as held for trading are already recorded in income. As well, when determined to be impaired, interest is no longer accrued and previous interest accruals are reversed.

(c) **Transaction Costs**

Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading. Transaction costs for financial assets classified as available for sale or loans and receivables are added to the value of the instrument at acquisition and taken into net income using the effective interest rate method. Transaction costs for financial liabilities classified as other than held for trading are recognized immediately in net income.

(d) **Cash and Cash Equivalents**

Cash and cash equivalents are comprised of cash, current operating accounts, overnight bank and term deposits with original maturities of three months or less, and fixed-income securities with an original term to maturity of three months or less. Net payments in transit and overdraft bank balances are included in other liabilities. The carrying value of cash and cash equivalents approximates their fair value.

(e) Trading Account Assets

Trading account assets consist of investments in Putnam sponsored funds, which are carried at fair value based on the net asset value. Investments in these assets are included in other assets on the Consolidated Balance Sheets with realized and unrealized gains and losses reported in the Summaries of Consolidated Operations.

(f) Financial Liabilities

Financial liabilities, other than actuarial liabilities and certain preferred shares, are classified as other liabilities. Other liabilities are initially recorded on the Consolidated Balance Sheets at fair value and subsequently carried at amortized cost using the effective interest rate method with amortization expense recorded in the Summaries of Consolidated Operations. The Company has designated outstanding Preferred Shares Series D and Series E as held for trading in the Consolidated Balance Sheets with changes in fair value reported in the Summaries of Consolidated Operations.

(g) Derivative Financial Instruments

The Company uses derivative products as risk management instruments to hedge or manage asset, liability and capital positions, including revenues. The Company's policy guidelines prohibit the use of derivative instruments for speculative trading purposes.

Derivative financial instruments used by the Company are summarized in note 23, which includes disclosure of the maximum credit risk, future credit exposure, credit risk equivalent and risk weighted equivalent as prescribed by OSFI.

All derivatives including those that are embedded in financial and non-financial contracts that are not closely related to the host contracts are recorded at fair value on the Consolidated Balance Sheets in other assets and other liabilities (notes 8 and 12). The method of recognizing unrealized and realized fair value gains and losses depends on whether the derivatives are designated as hedging instruments. For derivatives that are not designated as hedging instruments, unrealized and realized gains and losses are recorded in net investment income on the Summaries of Consolidated Operations. For derivatives designated as hedging instruments, unrealized and realized gains and losses are recognized according to the nature of the hedged item.

To qualify for hedge accounting, the relationship between the hedged item and the hedging instrument must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting treatment and both the hedged item and the hedging instrument are reported independently as if there was no hedging relationship.

Where a hedging relationship exists, the Company documents all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking derivatives that are used in hedging transactions to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items. Hedge effectiveness is reviewed quarterly through a combination of critical terms matching and correlation testing.

Derivatives not designated as hedges for accounting purposes

For derivative investments not designated as accounting hedges, changes in fair value are recorded in net investment income.

Fair value hedges

For fair value hedges, changes in fair value of both the hedging instrument and the hedged item are recorded in net investment income and consequently any ineffective portion of the hedge is recorded immediately to net investment income.

The Company currently has interest rate futures designated as fair value hedges.

Cash flow hedges

Certain interest rate swaps and cross-currency swaps are used to hedge cash flows. For cash flow hedges, the effective portion of the changes in fair value of the hedging instrument are recorded in the same manner as the hedged item in either net investment income or OCI while the ineffective portion is recognized immediately in net investment income. Gains and losses that accumulate in OCI are recorded in net investment income in the same period the hedged item affects net income. Gains and losses on cash flow hedges are immediately reclassified from OCI to net investment income if and when it is probable that a forecasted transaction is no longer expected to occur.

The ineffective portion of the cash flow hedges during 2008 and the anticipated net gains (losses) reclassified to AOCI within the next twelve months is $3. The maximum time frame for which variable cash flows are hedged is 36 years.

Net Investment Hedges

Foreign exchange forward contracts are used to hedge the net investment in the Company's foreign operations. Changes in the fair value of these hedges are recorded in OCI. Hedge accounting is discontinued when the hedging no longer qualifies for hedge accounting.

The Company currently has no derivatives designated as net investment hedges.

1. Basis of Presentation and Summary of Accounting Policies (cont'd)

(h) Foreign Currency Translation

The Company follows the current rate method of foreign currency translation for its net investment in its self-sustaining foreign operations. Under this method, assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet dates and all income and expense items are translated at an average of daily rates. Unrealized foreign currency translation gains and losses on the Company's net investment in its self-sustaining foreign operations are presented separately as a component of OCI. Unrealized gains and losses will be recognized proportionately in net investment income on the Summaries of Consolidated Operations when there has been a net permanent disinvestment in the foreign operations. Foreign currency translation gains and losses on foreign currency transactions of the Company are included in net investment income and are not material to the financial statements of the Company.

(i) Loans to Policyholders

Loans to policyholders are shown at their unpaid balance and are fully secured by the cash surrender values of the policies. Carrying value of loans to policyholders approximates their fair value.

(j) Funds Held by Ceding Insurers/Funds Held Under Reinsurance Contracts

Under certain forms of reinsurance contracts, it is customary for the ceding insurer to retain possession of the assets supporting the liabilities ceded. The Company records an amount receivable from the ceding insurer or payable to the reinsurer representing the premium due. Investment revenue on these funds withheld is credited by the ceding insurer.

(k) Goodwill and Intangible Assets

Goodwill represents the excess of purchase consideration over the fair value of net assets of acquired subsidiaries of the Company. Intangible assets represent finite life and indefinite life intangible assets of acquired subsidiaries of the Company. Finite life intangible assets include the value of customer contracts and distribution channels. These finite life intangible assets are amortized over their estimated useful lives, generally not exceeding 20 years and 30 years respectively. The Company tests goodwill and indefinite life intangible assets for impairment using a two-step fair value-based test annually, and when an event or change in circumstances indicates that the asset might be impaired. Goodwill and intangible assets are written down when impaired to the extent that the carrying value exceeds the estimated fair value.

Impairment Testing

Goodwill

In the first test, goodwill is assessed for impairment by determining whether the fair value of the reporting unit to which the goodwill is associated is less than its carrying value. When the fair value of the reporting unit is less than its carrying value, the second test compares the fair value of the goodwill in that reporting unit to its carrying value. If the fair value of goodwill is less than its carrying value, goodwill is considered to be impaired and a charge for impairment is recognized immediately. The fair value of the reporting units is derived from internally developed valuation models consistent with those used when the company is acquiring businesses, using a market or income approach. The discount rates used are based on an industry weighted cost of capital and consider the risk free rate, market equity risk premium, size premium and operational risk premium for possible variations from projections.

Indefinite life intangibles

The fair value of intangible assets for customer contracts, the Shareholder portion of acquired future Participating account profits and certain property leases are estimated using an income approach as described for goodwill above. The fair value of brands and trademarks is estimated using a relief-from-royalty approach using the present value of expected after-tax royalty cash flows through licensing agreements.

(l) Revenue Recognition

Premiums for all types of insurance contracts, and contracts with limited mortality or morbidity risk, are generally recognized as revenue when due and collection is reasonably assured. When premiums are recognized, actuarial liabilities are computed, with the result that benefits and expenses are matched with such revenue.

The Company's premium revenues, total paid or credited to policyholders and policy liabilities are all shown net of reinsurance amounts ceded to, or including amounts assumed from, other insurers.

Fee and other income is recognized when earned, collectible and the amount can be reasonably estimated. Fee and other income primarily includes fees earned from the management of segregated fund assets, proprietary mutual funds assets, fees earned on the administration of administrative services only (ASO) Group health contracts and fees earned from management services.

(m) Fixed Assets

Included in other assets are fixed assets that are carried at cost less accumulated amortization computed on a straight-line basis over their estimated useful lives, which vary from 3 to 15 years. Amortization of fixed assets included in the Summaries of Consolidated Operations is $67 ($95 in 2007).

(n) Actuarial Liabilities

Actuarial liabilities represent the amounts required, in addition to future premiums and investment income, to provide for future benefit payments, policyholder dividends, commission and policy administrative expenses for all insurance and annuity policies in force with the Company. The Appointed Actuaries of the Company's subsidiary companies are responsible for determining the amount of the actuarial liabilities to make appropriate provision for the Company's obligations to policyholders. The Appointed Actuaries determine the actuarial liabilities using generally accepted actuarial practices, according to standards established by the Canadian Institute of Actuaries. The valuation uses the Canadian Asset Liability Method (CALM). This method involves the projection of future events in order to determine the amount of assets that must be set aside currently to provide for all future obligations and involves a significant amount of judgment. Actuarial liabilities of the Company are discussed in note 9.

(o) Income Taxes

The Company uses the liability method of income tax allocation. Current income taxes are based on taxable income and future income taxes are based on taxable temporary differences. The income tax rates used to measure income tax assets and liabilities are those rates enacted or substantively enacted at the balance sheet date (see note 22).

(p) Repurchase Agreements

The Company enters into repurchase agreements with third-party broker-dealers in which the Company sells securities and agrees to repurchase substantially similar securities at a specified date and price. Such agreements are accounted for as investment financings.

(q) Pension Plans and Other Post-Retirement Benefits

The Company's subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company's subsidiaries also maintain defined contribution pension plans for certain employees and advisors. The cost of defined pension benefits is charged to earnings using the projected benefit method prorated on services (see note 18).

The Company's subsidiaries also provide post-retirement health, dental and life insurance benefits to eligible employees, advisors and their dependents. The cost of post-retirement health, dental and life insurance benefits is charged to earnings using the projected benefit method prorated on services (see note 18).

(r) Stock Based Compensation

The Company follows the fair value based method of accounting for the valuation of compensation expense for options granted to employees under its stock option plan (see note 17). Compensation expense is recognized as an increase to compensation expense in the Summaries of Consolidated Operations and an increase to contributed surplus over the vesting period of the granted options. When options are exercised, the proceeds received, along with the amount in contributed surplus, is transferred to share capital.

(s) Earnings Per Common Share

Earnings per common share is calculated using net income after preferred share dividends and the weighted average number of common shares outstanding. The treasury stock method is used for calculating diluted earnings per common share (see note 19).

(t) Geographic Segmentation

The Company has significant operations in Canada, the United States and Europe. Reinsurance operations and operations in all countries other than Canada and the United States are reported as part of the Europe segment.

(u) Consolidation of Variable Interest Entities

The Company adopted the Emerging Issues Committee (EIC) of the CICA EIC-163, *Determining the Variability to be Considered in Applying AcG-15* on January 1, 2007. EIC-163 provides additional guidance on consolidation of variable interest entities. This change in accounting policy did not have a material impact to the financial statements of the Company.

(v) Comparative Figures

Certain of the 2007 amounts presented for comparative purposes have been reclassified to conform to the presentation adopted in the current year. This reclassification has resulted in a decrease in other assets of $194 at December 31, 2007 with a corresponding change in policy liabilities on the Consolidated Balance Sheets. On the Summaries of Consolidated Operations this reclassification resulted in a decrease in total paid or credited to policyholders of $102 for the year ended December 31, 2007 with a corresponding increase in income tax expense.

1. Basis of Presentation and Summary of Accounting Policies (cont'd)

(w) Future Accounting Policies

Goodwill and Intangible Assets

Effective January 1, 2009, the Company will adopt the CICA Handbook Section 3064, *Goodwill and Intangible Assets*. This section replaces existing section 3062, *Goodwill and Other intangible assets*, and Section 3450, *Research and Development Costs*. This section establishes new standards for the recognition and measurement of intangible assets, but does not affect the accounting for goodwill. The Company does not anticipate that this standard will have a material impact to the financial results of the Company.

2. Acquisitions and Disposals

(a) On August 3, 2007, Lifeco acquired the asset management business of Putnam Investments Trust (Putnam), and Great-West Life and Canada Life acquired Putnam's 25% interest in T.H. Lee Partners (T.H. Lee), from Marsh & McLennan Companies Inc. representing an aggregate transaction value of approximately $4.2 billion including transaction costs.

Financing of the transaction is described in note 11.

The allocation of the purchase price, which was finalized in 2008, is summarized as follows:

Value of assets acquired:	
Cash and certificates of deposit	$ 74
Stocks	441
Accounts receivable	561
Future income tax assets	347
Grantor trust	348
Other assets	571
	$ 2,342
Value of liabilities assumed:	
Accounts payable and accrued expenses	$ 657
Future income tax payable	180
Deferred compensation	171
Grantor trust	348
Other liabilities	273
Non-controlling interests	2
	1,631
Fair value of net assets acquired	$ 711
Total purchase consideration:	
Cash	$ 4,143
Transaction and related costs, net of income taxes	91
	4,234
Goodwill and intangible assets on acquisition	$ 3,523
Finite life intangibles	$ 184
Indefinite life intangibles	2,388
Goodwill	951
Goodwill and intangible assets on acquisition	$ 3,523

Included in other liabilities assumed are accruals for Putnam costs of $154 related to planned restructuring and exit activities involving operations and systems, compensation and facilities costs (refer to note 3).

Results of Putnam are included in the Summaries of Consolidated Operations from the date of acquisition. Putnam offers investment management products and services, mainly in the United States.

(b) On April 1, 2008, GWL&A completed the sale of its health care business, Great-West Healthcare. As part of the transaction GWL&A received U.S. $1.5 billion in gross proceeds, and approximately U.S. $750 million representing the amount of equity invested in the health care business was made available for other purposes.

The sale proceeds and the equity invested were applied to outstanding short term credit facilities and a term loan (refer to note 11).

As a result of the sale a net gain of $1,025 ($649 after-tax) was recorded in net income from discontinued operations on the Summaries of Consolidated Operations. The gain is net of a charge of $329 ($208 after-tax) as a result of costs associated with the sale. In accordance with CICA Handbook Section 3475, *Disposal of Long-lived Assets and Discontinued Operations* the operating results and assets and liabilities of the health care business have been presented as discontinued operations in the financial statements of the Company.

After-tax net income of the health care business presented as discontinued operations on the Summaries of Consolidated Operations is comprised of the following:

	2008	2007
Income		
Premium income	$ 184	$ 983
Net investment income	11	81
Fee and other income	164	765
	359	1,829
Gain on sale	1,025	–
	1,384	1,829
Benefits and expenses		
Paid or credited to policyholders and beneficiaries including policyholder dividends and experience refunds	151	851
Other	145	689
Net income from discontinued operations before income taxes	1,088	289
Income taxes	396	86
Net income from discontinued operations	$ 692	$ 203

As a result of the sale of its health care business, GWL&A recognized a charge of $58 after-tax relating to the strengthening of reserves in its continuing operations.

On the Consolidated Balance Sheets assets and liabilities of operations held for sale are comprised of the following:

	2008	2007
Assets		
Bonds	$ –	$ 241
Cash and cash equivalents	–	26
Goodwill	–	47
Intangible assets	–	11
Other assets	–	372
Assets for operations held for sale	$ –	$ 697
Liabilities		
Policy liabilities	$ –	$ 248
Other liabilities	–	180
Liabilities of operations held for sale	$ –	$ 428

As of April 1, 2008 all of the assets and liabilities of operations held for sale have been sold.

(c) On October 22, 2008, Great-West Life entered into an agreement with Fidelity Investments Canada ULC (Fidelity) whereby Fidelity will transition its Canadian group retirement and savings plan record-keeping business to Great-West Life, representing $2.2 billion in assets under administration. The financial statements of the Company do not include the assets, liabilities, deposits and withdrawals or claims payments related to this business, however the Company will earn fee and other income from it.

2. Acquisitions and Disposals (cont'd)

(d) On July 5, 2007, Canada Life acquired all of the outstanding common shares of Crown Life Insurance Company (Crown Life) for cash consideration of $118, including transaction costs. The acquisition was pursuant to the terms of the 1999 acquisition of the majority of the insurance operation of Crown Life by Canada Life.

The acquisition resulted in an initial increase in invested assets of $459, an increase in other assets of $24, an increase in policyholder liabilities of $336, an increase in other liabilities of $48, and estimated goodwill of $19.

Results of Crown Life are included in the Summaries of Consolidated Operations from the date of acquisition.

(e) On May 31, 2007, GWL&A acquired an 80% equity interest in Benefits Management Corporation (BMC). The assets acquired, liabilities assumed and the Company's equity interest in the results of BMC's operations have been included in its consolidated financial statements since that date. The acquisition added approximately 90,000 members to the Company's medical membership. BMC's principal subsidiary, Allegiance Benefit Management, Inc., is a Montana-based third-party administrator of employee health plans. BMC's business was sold in 2008 as part of the sale of Great-West Healthcare as described in note 2(b).

3. Restructuring Costs

(a) Following the acquisition of Putnam LLC on August 3, 2007, the Company developed a plan to restructure and exit certain operations of Putnam. The Company expects the restructuring to be substantially complete by the end of 2009. Costs of $184 (U.S. $175) are expected to be incurred as a result by the U.S. operating segment and consist primarily of restructuring and exit activities involving operations and systems, compensation and facilities costs. Accrued restructuring costs are included in other liabilities in the Consolidated Balance Sheets and restructuring charges are included in the Summaries of Consolidated Operations. The costs include approximately $154 (U.S. $146) that was recognized as part of the purchase equation of Putnam and costs of approximately $30 (U.S. $29) will be charged to income as incurred.

The following details the amount and status of restructuring program costs:

	Expected total costs	Amounts utilized – 2007	Amounts utilized – 2008	Balance December 31, 2008
Compensation costs	$ 133	$ (27)	$ (76)	$ 30
Exiting and consolidating operations	22	(6)	(5)	11
Eliminating duplicate systems	29	(1)	–	28
	$ 184	$ (34)	$ (81)	$ 69
Accrued on acquisition	$ 154	$ (34)	$ (81)	$ 39
Expense as incurred	30	–	–	30
	$ 184	$ (34)	$ (81)	$ 69

(b) During the fourth quarter of 2008, the Company expanded its original restructuring plans for its subsidiary Putnam LLC to include a broader restructuring of its business. This expanded restructuring plan is intended to clear up complexities, better focus Putnam's service and distribution in core markets, respond to the impact of financial market conditions on assets and revenues, and build a culture that rewards excellence. It is expected to be completed in two phases. The first phase included a restructuring of the Company's equity investment unit including consolidating fund offerings, emphasizing fundamental research, vesting full authority and responsibility with individual fund managers, and realigning manager incentives. The second phase will include the restructuring of Putnam's operations, distribution, and other areas. The total additional restructuring expenses associated with the expanded plan are $70 ($58 U.S.) and are reflected in restructuring expenses in the Summaries of Consolidated Operations.

4. Portfolio Investments

(a) Carrying values and estimated market values of portfolio investments are as follows:

2008

	Carrying Value & Market Value			Amortized Cost				Total
	Available for sale	Held for trading [(1)] Designated	Held for trading [(1)] Classified	Carrying Value Loans and receivables	Market Value Loans and receivables	Carrying Value Non-financial instruments	Market Value Non-financial instruments	Carrying value
Bonds								
– government	$ 3,594	$ 16,197	$ 836	$ 1,877	$ 1,879	$ –	$ –	$ 22,504
– corporate	2,051	33,319	849	7,831	7,371	–	–	44,050
	5,645	49,516	1,685	9,708	9,250	–	–	66,554
Mortgage loans								
– residential	–	–	–	6,986	7,157	–	–	6,986
– non-residential	–	–	–	10,458	10,414	–	–	10,458
	–	–	–	17,444	17,571	–	–	17,444
Stocks	1,411	3,653	–	–	–	330	326	5,394
Real estate	–	–	–	–	–	3,188	3,053	3,188
	$ 7,056	$ 53,169	$ 1,685	$ 27,152	$ 26,821	$ 3,518	$ 3,379	$ 92,580

2007

	Carrying Value & Market Value			Amortized Cost				Total
	Available for sale	Held for trading [(1)] Designated	Held for trading [(1)] Classified	Carrying Value Loans and receivables	Market Value Loans and receivables	Carrying Value Non-financial instruments	Market Value Non-financial instruments	Carrying value
Bonds								
– government	$ 1,541	$ 16,554	$ 635	$ 1,775	$ 1,877	$ –	$ –	$ 20,505
– corporate	2,504	34,030	1,005	7,025	7,130	–	–	44,564
	4,045	50,584	1,640	8,800	9,007	–	–	65,069
Mortgage loans								
– residential	–	–	–	7,121	7,127	–	–	7,121
– non-residential	–	–	–	8,748	8,879	–	–	8,748
	–	–	–	15,869	16,006	–	–	15,869
Stocks	1,432	4,791	–	–	–	320	461	6,543
Real estate	–	–	–	–	–	2,547	2,844	2,547
	$ 5,477	$ 55,375	$ 1,640	$ 24,669	$ 25,013	$ 2,867	$ 3,305	$ 90,028

(1) Investments can be held for trading in two ways: designated as held for trading at the option of management; or, classified as held for trading if they are actively traded for the purpose of earning investment income.

During the fourth quarter, the Company changed its pricing methodology for monoline wrapped, asset-backed securities backed by prime home improvement loans which are held by its US subsidiary GWL&A. The Company concluded that an internal model utilizing asset-backed index spread vs. an external pricing source utilizing credit default swap spread assumptions, would result in a better measurement of fair value for securities. Utilizing internal models for these securities, which have a fair market value of $454, resulted in a decrease to unrealized losses in the amount of $157 when compared to the external pricing source. The use of internal valuation models did not affect the Company's operations, liquidity or capital resources during the period.

4. Portfolio Investments (cont'd)

(b) Stocks include the Company's investment in an affiliated company, IGM Financial Inc. (IGM), a member of the Power Financial Corporation group of companies, over which it exerts significant influence but does not control. The investment is accounted for using the equity method of accounting.

	2008	2007
Carrying value, beginning of year	$ 320	$ 306
Equity method earnings	28	30
Dividends	(18)	(16)
Carrying value, end of year	$ 330	$ 320
Share of equity, end of year	$ 148	$ 142
Fair value, end of year	$ 326	$ 461

The Company owns 9,205,897 shares of IGM at December 31, 2008 (9,206,401 at December 31, 2007) representing a 3.51% ownership interest (3.48% at December 31, 2007).

(c) Included in portfolio investments are the following:

(i) Impaired investments

	2008	2007
Bonds	$ 46	$ (1)
Mortgage loans	10	(10)
	$ 56	$ (11)

Impaired investments reflect gross amounts of $271 ($42 in 2007) reduced by other than temporary loss amounts of $215 ($53 in 2007). Included in the other than temporary loss amounts are portfolio provisions of $19 ($27 in 2007).

(ii) The allowance for credit losses and changes in the allowance for credit losses related to investments classified as loans and receivables are as follows:

	2008			2007		
	Bonds	Mortgage Loans	Total	Bonds	Mortgage Loans	Total
Balance, beginning of year	$ 34	$ 19	$ 53	$ 44	$ 30	$ 74
Net provision (recoveries) for credit losses – in year	–	4	4	(5)	(5)	(10)
Write-offs, net of recoveries	(9)	2	(7)	1	(2)	(1)
Other (including foreign exchange rate changes)	6	4	10	(6)	(4)	(10)
Balance, end of period	$ 31	$ 29	$ 60	$ 34	$ 19	$ 53

The allowance for credit losses is supplemented by the provision for future credit losses included in actuarial liabilities.

(d) Net investment income is comprised of the following:

	2008					
	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Regular net investment income:						
Investment income earned	$ 4,158	$ 953	$ 195	$ 170	$ 434	$ 5,910
Net realized gains (losses) *(available for sale)*	59	–	(19)	–	–	40
Net realized gains (losses) *(other classifications)*	30	28	–	–	–	58
Amortization of net realized/unrealized gains *(non-financial instruments)*	–	–	–	23	–	23
Net (provision) recovery of credit losses *(loans and receivables)*	–	(4)	–	–	–	(4)
Other income and expenses	–	–	–	–	(65)	(65)
	4,247	977	176	193	369	5,962
Changes in fair value on held for trading assets:						
Net realized/unrealized gains (losses) *(classified held for trading)*	9	–	–	–	–	9
Net realized/unrealized gains (losses) *(designated held for trading)*	(3,684)	–	(1,689)	–	203	(5,170)
	(3,675)	–	(1,689)	–	203	(5,161)
Net investment income	$ 572	$ 977	$ (1,513)	$ 193	$ 572	$ 801

	2007					
	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Regular net investment income:						
Investment income earned	$ 3,619	$ 894	$ 193	$ 128	$ 612	$ 5,446
Net realized gains (losses) *(available for sale)*	57	–	8	–	–	65
Net realized gains (losses) *(other classifications)*	16	26	–	–	–	42
Net impairment recoveries	5	5	–	–	–	10
Amortization of deferred net realized gains	–	–	–	71	–	71
Other income and expenses	–	–	–	–	(69)	(69)
	3,697	925	201	199	543	5,565
Changes in fair value on held for trading assets:						
Net realized/unrealized gains (losses) *(classified held for trading)*	(12)	–	–	–	–	(12)
Net realized/unrealized gains (losses) *(designated held for trading)*	(1,085)	–	126	–	(127)	(1,086)
	(1,097)	–	126	–	(127)	(1,098)
Net investment income	$ 2,600	$ 925	$ 327	$ 199	$ 416	$ 4,467

(e) Also included in portfolio investments are modified/restructured loans of $18 ($8 in 2007) that are performing in accordance with their current terms.

5. Financial Instrument Risk Management

The Company has policies relating to the identification, measurement, monitoring, mitigating, and controlling of risks associated with financial instruments. The key risks related to financial instruments are credit risk, liquidity risk and market risk (currency, interest rate and equity). The following sections describe how the Company manages each of these risks.

(a) Credit Risk

Credit risk is the risk of financial loss resulting from the failure of debtors making payments when due. The following policies and procedures are in place to manage this risk:

- Investment guidelines are in place that require only the purchase of investment-grade assets and minimize undue concentration of assets in any single geographic area, industry and company.
- Investment guidelines specify minimum and maximum limits for each asset class. Credit ratings are determined by recognized external credit rating agencies and/or internal credit review.
- Investment guidelines also specify collateral requirements.
- Portfolios are monitored continuously, and reviewed regularly with the Boards of Directors or the Investment Committees of the Boards of Directors.
- Credit risk associated with derivative instruments is evaluated quarterly based on conditions that existed at the balance sheet date, using practices that are at least as conservative as those recommended by regulators.
- The Company is exposed to credit risk relating to premiums due from policyholders during the grace period specified by the insurance policy or until the policy is paid up or terminated. Commissions paid to agents and brokers are netted against amounts receivable, if any.
- Reinsurance is placed with counterparties that have a good credit rating and concentration of credit risk is managed by following policy guidelines set each year by the Board of Directors. Management continuously monitors and performs an assessment of creditworthiness of reinsurers.

(i) Maximum Exposure to Credit Risk

The following table summarizes the Company's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses.

	2008	2007
Cash and cash equivalents	$ 2,850	$ 3,650
Bonds		
Held for trading	51,201	52,224
Available for sale	5,645	4,045
Amortized cost	9,708	8,800
Mortgage loans	17,444	15,869
Loans to policyholders	7,622	6,317
Other financial assets	15,004	4,661
Derivative assets	677	924
Total balance sheet maximum credit exposure	$ 110,151	$ 96,490

Credit risk is also mitigated by entering into collateral agreements. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and the valuation parameters. Management monitors the value of the collateral, requests additional collateral when needed and performs an impairment valuation when applicable.

(ii) Concentration of Credit Risk

Concentrations of credit risk arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar credit risk characteristics in that they operate in the same geographic region or in similar industries. The characteristics are similar in that changes in economic or political environments may impact their ability to meet obligations as they come due.

The following table provides details of the carrying value of bonds by industry sector and geographic distribution:

	2008
Bonds issued or guaranteed by:	
Canadian federal government	$ 1,867
Canadian provincial and municipal governments	6,029
U.S. Treasury and other U.S. agencies	4,968
Other foreign governments	6,854
Government related	1,563
Sovereign	1,739
Asset-backed securities	7,243
Residential mortgage backed securities	1,156
Banks	5,070
Other financial institutions	3,602
Basic materials	870
Communications	1,220
Consumer products	4,104
Industrial products/services	1,985
Natural resources	1,813
Real estate	1,645
Transportation	2,497
Utilities	7,068
Miscellaneous	1,866
Total long term bonds	63,159
Short term bonds	3,395
	$ 66,554
Canada	$ 26,231
United States	17,703
Europe/Reinsurance	22,620
	$ 66,554

The following table provides details of the carrying value of mortgage loans by geographic location:

	2008			
	Single family residential	Multi-family residential	Commercial	Total
Canada	$ 1,850	$ 4,524	$ 6,144	$ 12,518
United States	–	576	1,581	2,157
Europe	–	36	2,733	2,769
Total mortgages	**$ 1,850**	**$ 5,136**	**$ 10,458**	**$ 17,444**

	2007			
	Single family residential	Multi-family residential	Commercial	Total
Canada	$ 1,794	$ 4,783	$ 5,403	$ 11,980
United States	–	514	1,125	1,639
Europe	–	30	2,220	2,250
Total mortgages	$ 1,794	$ 5,327	$ 8,748	$ 15,869

5. Financial Instrument Risk Management (cont'd)

(iii) Asset Quality

Bond Portfolio Quality	2008	2007
AAA	**$ 25,138**	$ 28,134
AA	**10,765**	10,886
A	**18,030**	16,451
BBB	**8,809**	7,451
BB and lower	**417**	457
	63,159	63,379
Short term bonds	**3,395**	1,690
Total bonds	**$ 66,554**	$ 65,069

Derivative Portfolio Quality	2008	2007
Over-the-counter contracts (counterparty ratings):		
AAA	**$ 19**	$ –
AA	**165**	598
A	**468**	375
Total	**$ 652**	$ 973

(iv) Loans Past Due, But Not Impaired

Loans that are past due but not considered impaired are loans for which scheduled payments have not been received, but management has reasonable assurance of timely collection of the full amount of principal and interest due. The following table provides carrying values of the loans past due, but not impaired:

	2008	2007
Less than 30 days	**$ 50**	$ 87
30-90 days	**4**	2
90 days and greater	**1**	1
Total	**$ 55**	$ 90

(b) **Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The following policies and procedures are in place to manage this risk:

- The Company closely manages operating liquidity through cash flow matching of assets and liabilities.
- Management monitors the use of line of credit on a regular basis, and assesses the ongoing availability of these and alternative forms of operating credit.
- Management closely monitors the solvency and capital positions of its principal subsidiaries opposite liquidity requirements at the holding company. Additional liquidity is available through established lines of credit and the Company's demonstrated ability to access capital markets for funds. The Company maintains a $200 million committed line of credit with a Canadian chartered bank.

In the normal course of business the Company enters into contracts that give rise to commitments of future minimum payments that impact short-term and long-term liquidity. The following table summarizes the principal repayment schedule of certain of the Company's financial liabilities.

	Payments due by period						
	Total	1 year	2 years	3 years	4 years	5 years	over 5 years
Debentures and other debt instruments	$ 3,820	$ 266	$ 1	$ 1	$ 372	$ 1	$ 3,179
Preferred share liabilities	756	–	–	–	–	557	199
Capital trust debentures (1)	800	–	–	–	–	–	800
Purchase obligations	216	73	56	47	27	13	–
Pension contributions	81	81	–	–	–	–	–
	$ 5,673	$ 420	$ 57	$ 48	$ 399	$ 571	$ 4,178

(1) Payments due have not been reduced to reflect the Company held capital trust securities of $175 principal amount ($167 carrying value).

(c) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market factors. Market factors include three types of risks: currency risk, interest rate risk and equity risk.

(i) Currency Risk

Currency risk relates to the Company operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. The following policies and procedures are in place to mitigate the Company's exposure to currency risk.

- The Company uses financial measures such as constant currency calculations to monitor the effect of currency translation fluctuations.
- Investments are normally made in the same currency as the liabilities supported by those investments.
- Foreign currency assets acquired to back liabilities are normally converted back to the currency of the liability using foreign exchange contracts.
- A 10% increase in foreign currency rates would be expected to have minimal impact on non-participating actuarial liabilities. A 10% decrease in foreign currency rates would be expected to have minimal impact on non-participating actuarial liabilities.

(ii) Interest Rate Risk

Interest rate risk exists if asset and liability cash flows are not closely matched and interest rates change causing a difference in value between the asset and liability. The following policies and procedures are in place to mitigate the Company's exposure to interest rate risk.

- The Company utilizes a formal process for managing the matching of assets and liabilities. This involves grouping general fund assets and liabilities into segments. Assets in each segment are managed in relation to the liabilities in the segment.
- Interest rate risk is managed by investing in assets that are suitable for the products sold.
- For products with fixed and highly predictable benefit payments, investments are made in fixed income assets that closely match the liability product cash flows. Protection against interest rate change is achieved as any change in the fair market value of the assets will be offset by a similar change in the fair market value of the liabilities.
- For products with less predictable timing of benefit payments, investments are made in fixed income assets with cash flows of a shorter duration than the anticipated timing of benefit payments, or equities as described below.
- The risk associated with the mismatch in portfolio duration and cash flow, asset prepayment exposure and the pace of asset acquisition are quantified and reviewed regularly.

Projected cash flows from the current assets and liabilities are used in CALM to determine actuarial liabilities. Cash flows from assets are reduced to provide for potential asset default losses. Testing under several interest rate scenarios (including increasing and decreasing rates) is done to assess reinvestment risk.

One way of measuring the interest rate risk associated with this assumption is to determine the effect on the present value of the projected net asset and liability cash flows of the non-participating business of the Company of an immediate and permanent 1% increase and 1% decrease in interest rates at each future duration. These interest rate changes will impact the projected cash flows.

- The effect of an immediate and permanent 1% increase in interest rates at each future duration would be to decrease the present value of these net projected cash flows by approximately $31.
- The effect of an immediate and permanent 1% decrease in interest rates at each future duration would be to decrease the present value of these net projected cash flows by approximately $149.

(iii) Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. To mitigate price risk, the Company has investment policy guidelines in place that provide for prudent investment in equity markets within clearly defined limits.

Some policy liabilities are supported by equities, for example segregated fund products and products with long-tail liabilities. Generally these liabilities will fluctuate in line with equity market values. There will be additional impacts on these liabilities as equity market values fluctuate. A 10% increase in equity markets would be expected to additionally decrease non-participating actuarial liabilities by approximately $42. A 10% decrease in equity markets would be expected to additionally increase non-participating actuarial liabilities by approximately $245.

6. Pledging of Assets

The amount of assets which have a security interest by way of pledging is $8 ($7 in 2007) in respect of derivative transactions and $600 ($733 in 2007) in respect of reinsurance agreements.

7. Goodwill and Intangible Assets

During the fourth quarter of 2008 a subsidiary in the United States segment, Putnam LLC, recorded a non-cash impairment charge on its indefinite life intangibles of $1,090 ($901 U.S.) and goodwill of $1,088 ($899 U.S.). The after-tax impact of the impairment charge is $1,353 ($1,118 U.S.).

Using estimates of the fair values of brands and trademarks, customer contract related intangibles, and goodwill the fair value was determined to be lower than the carrying amount and as a result an impairment charge was recorded. The impairment charge reflects management's assessment of the impact of the decline of Putnam's assets under management as a result of both negative asset flows and a deterioration of investment market conditions since the acquisition date.

The impairment charge is recorded in the Summaries of Consolidated Operations in the Intangible and goodwill impairment caption. While the entire Putnam goodwill was written off, it is possible that future changes in assumptions may result in the recognition of further impairment losses on the intangibles.

(a) Goodwill

The carrying value of goodwill and changes in the carrying value of goodwill are as follows:

	2008	2007
Balance, beginning of year	$ 6,295	$ 5,393
Acquisitions (note 2)	–	970
Other	–	2
Changes in foreign exchange rates	218	(70)
Impairment	(1,088)	–
Balance, end of year	$ 5,425	$ 6,295
Canada	$ 3,772	$ 3,772
United States	149	1,020
Europe	1,504	1,503
	$ 5,425	$ 6,295

(b) Intangible Assets

The carrying value of intangible assets and changes in the carrying value of intangible assets are as follows:

	2008				
	Cost	Accumulated amortization	Changes in foreign exchange rates	Impairment	Carrying value, end of year
Indefinite life intangible assets					
– Brands and trademarks	$ 773	$ –	$ 39	$ (111)	$ 701
– Customer contract related	2,379	–	320	(979)	1,720
– Shareholder portion of acquired future Participating account profits	354	–	–	–	354
	3,506	–	359	(1,090)	2,775
Finite life intangible assets					
– Customer contract related	563	(108)	23	–	478
– Distribution channels	126	(20)	(9)	–	97
– Technology	13	(3)	1	–	11
– Property Leases	14	(4)	1	–	11
	716	(135)	16	–	597
Total	$ 4,222	$ (135)	$ 375	$ (1,090)	$ 3,372

	2007			
	Cost	Accumulated amortization	Changes in foreign exchange rates	Carrying value, end of year
Indefinite life intangible assets				
– Brands and trademarks	$ 773	$ –	$ (37)	$ 736
– Customer contract related	2,379	–	(115)	2,264
– Shareholder portion of acquired future Participating account profits	354	–	–	354
	3,506	–	(152)	3,354
Finite life intangible assets				
– Customer contract related	543	(76)	(26)	441
– Distribution channels	126	(16)	(11)	99
– Technology	13	(1)	(1)	11
– Property Leases	14	(1)	(1)	12
	696	(94)	(39)	563
Total	$ 4,202	$ (94)	$ (191)	$ 3,917

During 2008, in connection with the transition of the Canadian group retirement and savings plan record-keeping business of Fidelity (note 2(c)), the Company acquired approximately $20 of finite life intangible assets relating to customer contract related intangible assets. The value assigned to these intangible assets will be adjusted in 2009 as part of the finalization of the transaction in 2009.

During 2007, in connection with the acquisition of Putnam (note 2(a)), the Company acquired approximately $2,388 of indefinite life intangible assets relating to brands and customer contract related intangible assets and $184 of finite life intangible assets relating to customer contract related, technology and property lease intangible assets.

8. Other Assets

Other assets consist of the following:

	2008	2007
Premiums in course of collection	$ **502**	$ 496
Interest due and accrued	**1,086**	1,014
Derivative financial instruments (note 1(a))	**677**	924
Other investment receivables	**90**	344
Current income taxes	**320**	–
Future income taxes (note 22)	**1,674**	530
Fixed assets	**272**	250
Prepaid expenses	**141**	117
Accounts receivable	**762**	954
Accrued pension asset (note 18)	**274**	228
Trading account assets	**63**	231
Other	**917**	690
	$ **6,778**	$ 5,778

9. Actuarial Liabilities

(a) Composition of Actuarial Liabilities and Related Supporting Assets

(i) The composition of actuarial liabilities is as follows:

	Participating		Non-participating		Total	
	2008	2007	2008	2007	2008	2007
Canada	$ **19,194**	$ 19,733	$ **19,852**	$ 20,676	$ **39,046**	$ 40,409
United States	**8,951**	7,153	**14,110**	11,999	**23,061**	19,152
Europe	**1,571**	1,739	**34,217**	26,187	**35,788**	27,926
Total	$ **29,716**	$ 28,625	$ **68,179**	$ 58,862	$ **97,895**	$ 87,487

9. Actuarial Liabilities (cont'd)

(ii) The composition of the assets supporting liabilities and surplus is as follows:

	2008					
	Bonds	**Mortgage loans**	**Stocks**	**Real estate**	**Other**	**Total**
Carrying value						
Participating	$ 13,743	$ 5,760	$ 2,512	$ 257	$ 7,444	$ 29,716
Non-participating						
Canada	11,888	5,282	741	8	1,933	19,852
United States	9,672	1,556	–	–	2,882	14,110
Europe	16,797	2,302	152	1,809	13,157	34,217
Other	6,982	2,082	920	308	8,659	18,951
Capital and surplus	7,472	462	1,069	806	3,419	13,228
Total carrying value	$ 66,554	$ 17,444	$ 5,394	$ 3,188	$ 37,494	$ 130,074
Market value	$ 66,096	$ 17,571	$ 5,390	$ 3,053	$ 37,494	$ 129,604

	2007					
	Bonds	Mortgage loans	Stocks	Real estate	Other	Total
Carrying value						
Participating	$ 12,893	$ 5,340	$ 3,383	$ 225	$ 6,784	$ 28,625
Non-participating						
Canada	12,527	5,386	879	5	1,879	20,676
United States	10,163	1,333	16	–	487	11,999
Europe	19,036	1,984	183	1,326	3,658	26,187
Other	5,937	1,654	1,072	375	10,761	19,799
Capital and surplus	4,513	172	1,010	616	4,597	10,908
Total carrying value	$ 65,069	$ 15,869	$ 6,543	$ 2,547	$ 28,166	$ 118,194
Market value	$ 65,276	$ 16,006	$ 6,684	$ 2,844	$ 28,166	$ 118,976

Cash flows of assets supporting actuarial liabilities are matched within reasonable limits. Changes in the fair values of these assets are essentially offset by changes in the fair value of actuarial liabilities.

Changes in the fair values of assets backing capital and surplus, less related income taxes, would result in a corresponding change in surplus over time in accordance with investment accounting policies.

(b) **Changes in Actuarial Liabilities**

The change in actuarial liabilities during the year was the result of the following business activities and changes in actuarial estimates:

	Participating		Non-participating		Total	
	2008	2007	2008	2007	2008	2007
Balance, end of previous year	$ 28,625	$ 27,744	$ 58,862	$ 61,672	$ 87,487	$ 89,416
Fair value adjustment	–	1,716	–	2,177	–	3,893
Balance, beginning of year	28,625	29,460	58,862	63,849	87,487	93,309
Impact of new business	(8)	7	4,094	3,536	4,086	3,543
Normal change in force	(730)	(556)	(6,991)	(6,094)	(7,721)	(6,650)
Management action and changes in assumptions	41	(3)	131	53	172	50
Business movement from/to external parties	–	76	12,039	1,903	12,039	1,979
Impact of foreign exchange rate changes	1,788	(359)	44	(4,385)	1,832	(4,744)
Balance, end of year	$ 29,716	$ 28,625	$ 68,179	$ 58,862	$ 97,895	$ 87,487

The 2007 amounts presented above for comparative purposes have reflected the reclassification of liabilities between tax liabilities and actuarial liabilities to conform to the presentation adopted in the current year.

With the adoption of fair value accounting in 2007, movement in the market value of the supporting assets has become a major factor in the movement of actuarial liabilities. The movement in the actuarial liabilities on introduction of fair value is noted in the Fair Value Adjustment line above. The movement during 2007 and 2008 is included in the Normal Change In Force above.

In 2008 the major contributors to the increase in actuarial liabilities were the reinsurance of a large block of UK payout annuities from Standard Life Assurance Limited, the impact of new business and the impact of foreign exchange rates partially offset by the normal change in the in force business.

Non-participating actuarial liabilities increased by $131 in 2008 due to management actions and assumption changes. By segment a $250 increase in Europe and $63 increase in the United States were partially offset by a $182 decrease in Canada. The increase in Europe was primarily due to strengthened life annuitant mortality ($203 increase), strengthened provisions for asset liability matching ($109 increase) and strengthened provisions for asset default ($108 increase) partially offset by two annuitant mortality risk transfer agreements ($98 decrease) and improved morbidity ($68 decrease). The increase in the United States was primarily due to strengthened expenses ($82 increase). The decrease in Canada was primarily due to improved Individual Life mortality ($105 decrease) and improved Individual and Group morbidity ($94 decrease).

Participating actuarial liabilities increased by $41 in 2008 due to management actions and assumption changes. This increase was primarily due to lowered investment returns ($76 increase) and an increase in the provision for future policyholder dividends ($93 increase), partially offset by improved life mortality ($66 decrease) and improved expenses and taxes ($62 decrease).

In 2007 the major contributor to the decline in actuarial liabilities was the impact of foreign exchange rates partially offset by the recapture from an external reinsurer of the remainder of the group business not recaptured in 2006 and the acquisition of all of the outstanding common shares of Crown Life.

Non-participating actuarial liabilities increased by $53 in 2007 due to management actions and assumption changes. This increase was primarily due to strengthened provisions for asset liability matching ($146 increase), and life annuitant mortality strengthening ($88 increase), partially offset by improved life mortality ($84 decrease), reduced expense and tax provisions ($57 decrease) and reduced Group waiver and LTD provisions ($51 decrease).

Participating actuarial liabilities decreased by $3 in 2007 due to management actions and assumption changes. This decrease was primarily due to improved investment returns ($265 decrease), reduced expense and tax provisions ($188 decrease) and improved life mortality ($149 decrease), partially offset by an increase in the provision for future policyholder dividends ($558 million increase).

(c) Actuarial Assumptions

In the computation of actuarial liabilities, valuation assumptions have been made regarding rates of mortality/morbidity, investment returns, levels of operating expenses and rates of policy termination. The valuation assumptions use best estimates of future experience together with a margin for misestimation and experience deterioration. These margins have been set in accordance with guidelines established by the Canadian Institute of Actuaries and are necessary to provide reasonable assurance that actuarial liabilities cover a range of possible outcomes. Margins are reviewed periodically for continued appropriateness.

The methods for arriving at these valuation assumptions are outlined below:

Mortality

A life insurance mortality study is carried out annually for each major block of insurance business. The results of each study are used to update the Company's experience valuation mortality tables for that business. When there is insufficient data, use is made of the latest industry experience to derive an appropriate valuation mortality assumption. Although mortality improvements have been observed for many years, for life insurance valuation the mortality provisions (including margin) do not allow for future improvements. A 1% increase in the best estimate assumption would increase non-participating actuarial liabilities by approximately $108.

Annuitant mortality is also studied regularly and the results used to modify established industry experience annuitant mortality tables. Mortality improvement has been projected to occur throughout future years for annuitants. A 1% decrease in the best estimate assumption would increase non-participating actuarial liabilities by approximately $129.

9. Actuarial Liabilities (cont'd)

Morbidity

The Company uses industry developed experience tables modified to reflect emerging company experience. Both claim incidence and termination are monitored regularly and emerging experience is factored into the current valuation. For products for which morbidity is a significant assumption a 1% adverse change in the best estimate assumptions would increase non-participating actuarial liabilities by approximately $60.

Property and casualty reinsurance

Actuarial liabilities for property and casualty reinsurance written by London Reinsurance Group Inc. (LRG), a subsidiary of London Life, are determined using accepted actuarial practices for life insurers in Canada. Reflecting the long-term nature of the business, reserves have been established using cash flow valuation techniques including discounting. The reserves are based on cession statements provided by ceding companies. In certain instances, LRG management adjusts cession statement amounts to reflect management's interpretation of the treaty. Differences will be resolved via audits and other loss mitigation activities. In addition, reserves also include an amount for incurred but not reported losses (IBNR) which may differ significantly from the ultimate loss development. The estimates and underlying methodology are continually reviewed and updated and adjustments to estimates are reflected in income. LRG analyzes the emergence of claims experience against expected assumptions for each reinsurance contract separately and at the portfolio level. If necessary, a more in depth analysis is undertaken of the cedant experience.

Investment returns

The assets which correspond to the different liability categories are segmented. For each segment, projected cash flows from the current assets and liabilities are used in CALM to determine actuarial liabilities. Cash flows from assets are reduced to provide for asset default losses. Testing under several interest rate scenarios (including increasing and decreasing rates) is done to provide for reinvestment risk (see note 5(c)).

Expenses

Unit expense studies are updated regularly to determine an appropriate estimate of future expenses for the liability type being valued. Expense improvements are not projected. An inflation assumption is incorporated in the estimate of future expenses consistent with the interest rate scenarios projected under CALM. A 10% increase in the best estimate maintenance unit expense assumption Company wide would increase the non-participating actuarial liabilities by approximately $158.

Policy termination

Studies to determine rates of policy termination are updated regularly to form the basis of this estimate. Industry data is also available and is useful where the Company has no experience with specific types of policies or its exposure is limited. A 10% adverse change in the best estimate policy termination assumption would increase non-participating actuarial liabilities by approximately $345.

Policyholder dividends

Future policyholder dividends are included in the determination of actuarial liabilities for participating policies, with the assumption that policyholder dividends will change in the future to reflect the experience of the respective participating accounts, consistent with the participating policyholder dividend policies. It is our expectation that associated with changes in the best estimate assumptions for participating business would be corresponding changes in policyholder dividend scales, resulting in an immaterial net change in actuarial liabilities for participating business.

(d) Risk Management

(i) Interest rate risk

Interest rate risk is managed by effectively matching portfolio investments with liability characteristics. Hedging instruments are employed where necessary when there is a lack of suitable permanent investments to minimize loss exposure to interest rate changes.

(ii) Credit risk

Credit risk is managed through an emphasis on quality in the investment portfolio and by maintenance of issuer, industry and geographic diversification standards.

Projected investment returns are reduced to provide for future credit losses on assets. The net effective yield rate reduction averaged .19% (.15% in 2007). The calculation for future credit losses on assets is based on the credit quality of the underlying asset portfolio.

The following outlines the future asset credit losses provided for in actuarial liabilities. These amounts are in addition to the allowance for asset losses included with assets:

	2008	2007
Participating	$ 552	$ 548
Non-participating	1,208	796
	$ 1,760	$ 1,344

(iii) Reinsurance risk

Maximum benefit amount limits per insured life (which vary by line of business) are established for life and health insurance and reinsurance is purchased for amounts in excess of those limits.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honour their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies.

As a result of reinsurance, actuarial liabilities have been reduced by the following amounts:

	2008	2007
Participating	$ 112	$ 93
Non-participating	2,891	2,680
	$ 3,003	$ 2,773

Certain of the reinsurance contracts are on a funds withheld basis where the Company retains the assets supporting the reinsured actuarial liabilities, thus minimizing the exposure to significant losses from reinsurer insolvency on those contracts.

(iv) Foreign exchange risk

If the assets backing actuarial liabilities are not matched by currency, changes in foreign exchange rates can expose the Company to the risk of foreign exchange losses not offset by liability decreases.

Foreign exchange risk is managed whenever possible by matching assets with related liabilities by currency and through the use of derivative instruments such as forward contracts and cross-currency swaps. These financial instruments allow the Company to modify an asset position to more closely match actual or committed liability currency.

(v) Liquidity risk

Liquidity risk is the risk that the Company will have difficulty raising funds to meet commitments. The liquidity needs of the Company are closely managed through cash flow matching of assets and liabilities and forecasting earned and required yields, to ensure consistency between policyholder requirements and the yield of assets. Approximately 71% of policy liabilities are non-cashable prior to maturity or subject to market value adjustments.

10. Financing Charges

Financing charges consist of the following:

	2008	2007
Interest on long-term debentures and other debt instruments	$ 242	$ 205
Dividends on preferred shares classified as liabilities (note 15 (i))	36	36
Unrealized gains on preferred shares classified as held for trading	(33)	(40)
Subordinated debenture issue costs	5	13
Other	9	18
Interest on capital trust debentures	49	49
Distributions on capital trust securities held by consolidated group as temporary investments	(12)	(12)
Total	$ 296	$ 269

11. Debentures and Other Debt Instruments

Debentures and other debt instruments consist of the following:

	2008 Carrying value	2008 Market value	2007 Carrying value	2007 Market value
Short term				
Commercial paper and other short term debt instruments with interest rates from 0.6% to 2.4% (4.8% to 5.5% in 2007)	$ 119	$ 119	$ 95	$ 95
Credit facility at rate equal to the Canadian Bankers' Acceptance rate plus 0.25%	–	–	1,233	1,233
Credit facility at rate equal to LIBOR rate plus 0.25% (2007 – U.S. $647)	–	–	640	640
Revolving credit facility at a rate equal to LIBOR rate plus 0.25% (U.S. $120)	146	146	–	–
Total short term	265	265	1,968	1,968
Long term				
Operating:				
Notes payable with interest rate of 8.0% due May 6, 2014, unsecured	6	6	6	6
Capital:				
Lifeco				
6.75% Debentures due August 10, 2015, unsecured	200	206	200	209
6.14% Debentures due March 21, 2018, unsecured	200	186	200	213
6.74% Debentures due November 24, 2031, unsecured	200	169	200	231
6.67% Debentures due March 21, 2033, unsecured	400	376	400	460
	1,000	937	1,000	1,113
Canada Life				
Subordinated debentures due December 11, 2013 bearing a fixed rate of 5.8% until December 11, 2008 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 1%, unsecured	–	–	200	202
6.40% subordinated debentures due December 11, 2028, unsecured	100	86	100	111
Acquisition related fair market value adjustment	1	–	3	–
	101	86	303	313
Great-West Life & Annuity Insurance Capital, LP				
6.625% Deferrable debentures due November 15, 2034, unsecured (U.S. $175)	212	180	172	166
Great-West Life & Annuity Insurance Capital, LP II				
Subordinated debentures due May 16, 2046, bearing an interest rate of 7.153% until May 16, 2016 and thereafter, a rate of 2.538% plus the 3-month LIBOR rate, unsecured (U.S. $300)	366	200	297	291
Putnam Acquisition Financing LLC				
Five year term facility at LIBOR rate plus 0.30% (U.S. $304)	371	348	495	495
Great-West Lifeco Finance (Delaware) LP				
Subordinated debentures due June 21, 2067 bearing an interest rate of 5.691% until 2017 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 1.49%, unsecured	1,000	793	1,000	993
Subordinated debentures due June 26, 2068 bearing an interest rate of 7.127% until 2018 and, thereafter, at a rate equal to the Canadian 90-day Bankers' Acceptance rate plus 3.78%, unsecured	500	424	–	–
Total long term	3,556	2,974	3,273	3,377
Total debentures and other debt instruments	$ 3,821	$ 3,239	$ 5,241	$ 5,345

On June 26, 2008, the Company issued $500 of 7.127% Subordinated Debentures through its wholly-owned subsidiary Great-West Lifeco Finance (Delaware) LP II. The subordinated debentures are due June 26, 2068 and bear an interest rate of 7.127% until June 26, 2018. After June 26, 2018, the subordinated debentures will bear an interest rate of the Canadian 90-day bankers' acceptance rate plus 3.78%. Subject to a Replacement Capital Covenant, the subordinated debentures may be redeemed by the Company at the principal amount plus any unpaid and accrued interest after June 26, 2018.

On March 19, 2008, the Company repaid $235 on its one year credit facility with a Canadian chartered bank. On April 18, 2008 the Company repaid $730 Canadian and U.S. $345 on this facility and on June 26, 2008, the Company repaid the remaining $268 Canadian and U.S. $302 on this facility. The balance outstanding on this credit facility at December 31, 2007 was $1,873 ($1,233 Canadian and U.S. $647), and at June 30, 2008 the credit facility had been fully repaid.

During 2008, Putnam LLC also repaid U.S. $196 of the U.S. five year term facility.

On December 11, 2008, Canada Life repaid $200 principal amount of its 5.8% subordinated debentures, Series A.

On January 24, 2008, a subsidiary of Putnam LLC executed a demand promissory note in the amount of U.S. $150 with a Canadian Chartered Bank. On January 24, 2008, Putnam LLC drew U.S. $150 on the note. On March 26, 2008, a subsidiary of Putnam LLC executed a U.S. $200 revolving credit facility with a Canadian Chartered Bank and used proceeds from the facility to repay the U.S. $150 demand promissory note. There was U.S. $120 outstanding under the facility at December 31, 2008.

On June 20, 2007, Lifeco borrowed $124 under an existing revolving line of credit facility with a Canadian chartered bank. On August 2, 2007, Lifeco fully repaid the balance of $124.

On June 21, 2007, the Company issued $1.0 billion of 5.691% Subordinated Debentures through its wholly-owned subsidiary Great-West Lifeco Finance (Delaware) LP. The subordinated debentures are due June 21, 2067 and bear an annual interest rate of 5.691% until June 21, 2017. After June 21, 2017, the subordinated debentures will bear an interest rate of the Canadian 90-day bankers' acceptance rate plus 1.49%. The subordinated debentures may be redeemed by the Company at the principal amount plus any accrued and unpaid interest after June 21, 2017.

12. Other Liabilities

Other liabilities consist of the following:

	2008	2007
Current income taxes	$ 212	$ 260
Accounts payable	1,029	1,112
Liability for restructuring costs (note 3)	85	113
Pension and other post-retirement benefits (note 18)	550	540
Future income taxes (note 22)	317	272
Derivative financial instruments (note 1(a))	1,119	112
Other	2,657	2,802
	$ 5,969	$ 5,211

13. Capital Trust Securities and Debentures

	2008		2007	
	Carrying value	Market value	Carrying value	Market value
Capital trust debentures:				
5.995% Senior debentures due December 31, 2052, unsecured (GWLCT)	350	361	350	368
6.679% Senior debentures due June 30, 2052, unsecured (CLCT)	300	315	300	322
7.529% Senior debentures due June 30, 2052, unsecured (CLCT)	150	156	150	194
	800	832	800	884
Acquisition related fair market value adjustment	25	–	28	–
Trust securities held by consolidated group as temporary investments	(167)	(165)	(189)	(190)
Total	$ 658	$ 667	$ 639	$ 694

Great-West Life Capital Trust (GWLCT), a trust established by Great-West Life, had issued $350 of capital trust securities, the proceeds of which were used by GWLCT to purchase Great-West Life senior debentures in the amount of $350, and Canada Life Capital Trust (CLCT), a trust established by Canada Life, had issued $450 of capital trust securities, the proceeds of which were used by CLCT to purchase Canada Life senior debentures in the amount of $450. Distributions and interest on the capital trust securities are classified as financing charges on the Summaries of Consolidated Operations (see note 10).

14. Non-Controlling Interests

The Company had a controlling equity interest in Great-West Life, London Life, Canada Life, Putnam and GWL&A at December 31, 2008 and December 31, 2007.

On demutualization, $50 of seed capital was transferred from the shareholder account to the participating policyholder account of Canada Life. In accordance with the Conversion Proposal of Canada Life, the seed capital amount, together with a reasonable rate of return, may be transferred back to the shareholder account if the seed capital is no longer required to support the new participating policies.

In 2008, $5 of seed capital related to the Canadian open block of the participating policyholder account, together with accrued interest of $3 after-tax, was transferred from the participating policyholder account to the shareholder account. The repatriation (exclusive of interest) resulted in an increase in shareholder surplus of $5 and a decrease in non-controlling interest of $5. $28 of seed capital has been repaid to date.

14. Non-Controlling Interests (cont'd)

In 2008, non-controlling interests decreased by approximately $176 in connection with the termination of a long-standing assumption reinsurance agreement under which GWL&A had reinsured a block of U.S. participating policies.

(a) The non-controlling interests of Great-West Life, London Life, Canada Life, Putnam, GWL&A and their subsidiaries reflected in the Summaries of Consolidated Operations are as follows:

	2008	2007
Participating account		
Net income attributable to participating account before policyholder dividends		
Great-West Life	$ 129	$ 114
London Life	745	746
Canada Life	212	225
GWL&A	(173)	120
	913	1,205
Policyholder dividends		
Great-West Life	(122)	(113)
London Life	(679)	(623)
Canada Life	(226)	(220)
GWL&A	(2)	(108)
	(1,029)	(1,064)
Net income – participating account	(116)	141
Preferred shareholder dividends of subsidiaries	15	18
Non-controlling interests in subsidiaries	(7)	–
Total	$ (108)	$ 159

(b) The carrying value of non-controlling interests consists of the following:

	2008	2007
Participating account surplus:		
Great-West Life	$ 417	$ 411
London Life	1,549	1,470
Canada Life	31	36
GWL&A	15	186
	$ 2,012	$ 2,103
Preferred shares issued by subsidiaries:		
Great-West Life Series O, 5.55% Non-Cumulative	$ 157	$ 157
Perpetual preferred shares issued by subsidiaries:		
CLFC Series B, 6.25% Non-Cumulative	$ 145	$ 145
Acquisition related fair market value adjustment	5	7
	$ 150	$ 152
Non-controlling interests in subsidiaries	$ 13	$ 10

Non-controlling interests in capital stock and surplus includes non-controlling interests in Putnam controlled investments in institutional portfolio funds, hedge funds, Putnam sponsored mutual funds and PanAgora Asset Management Inc.

Prior to August 3, 2007, Putnam sponsored the Putnam Investments Trust Equity Partnership Plan (the EPP) which granted options and restricted shares to certain senior management and key employees of Putnam (the participants). As a result of the acquisition of Putnam, all outstanding awards were vested and settled in cash by Lifeco. The amount attributable to each participant was bifurcated, based upon a methodology provided in the EPP, into cash and a deferred amount. The participants received the cash portion immediately, and will receive the deferred amount over a three year period.

The deferred amount was contributed to Grantor Trusts established for the benefit of the participants. The participants may direct the manner in which their Grantor Trust amounts are invested, including the Putnam Class B shares, which are available pursuant to the EIP described in note 17(b). On December 4, 2007, the Grantor Trusts invested $74 in 2,096,801 Putnam Class B shares. Non-Controlling Interests of $74 have been eliminated on consolidation against Putnam Class B shares referred to in note 17(b). During 2008, 520,385 Putnam Class B shares vested, representing a minority interest in Putnam LLC of 0.54%.

On October 31, 2007, Great-West Life redeemed all 2,093,032 Non-Cumulative Preferred Shares, Series L for cash redemption price of $25.00 per share.

(c) The non-controlling interests of Great-West Life, London Life, Canada Life, Putnam, GWL&A and their subsidiaries reflected in OCI are as follows:

	2008	2007
Participating account		
Other comprehensive income (loss) attributable to participating account		
Great-West Life	$ (1)	$ (2)
London Life	13	(17)
Canada Life	14	1
GWL&A	4	(33)
Other comprehensive income (loss) – participating account	$ 30	$ (51)

15. Share Capital

Authorized

Unlimited First Preferred Shares, Class A Preferred Shares and Second Preferred Shares, Unlimited Common Shares

	2008		2007	
	Number	Carrying value	Number	Carrying value
Classified as liabilities				
Preferred shares:				
Designated as held for trading [1]				
Series D, 4.70% Non-Cumulative First Preferred Shares	7,938,500	$ 199	7,938,500	$ 205
Series E, 4.80% Non-Cumulative First Preferred Shares	22,282,215	553	22,282,215	581
	30,220,715	$ 752	30,220,715	$ 786
Classified as equity				
Perpetual preferred shares:				
Series F, 5.90% Non-Cumulative First Preferred Shares	7,957,001	$ 199	7,957,001	$ 199
Series G, 5.20% Non-Cumulative First Preferred Shares	12,000,000	300	12,000,000	300
Series H, 4.85% Non-Cumulative First Preferred Shares	12,000,000	300	12,000,000	300
Series I, 4.50% Non-Cumulative First Preferred Shares	12,000,000	300	12,000,000	300
Rate reset preferred shares:				
Series J, 6.00% Non-Cumulative First Preferred Shares	9,200,000	230	–	–
	53,157,001	$ 1,329	43,957,001	$ 1,099
Common shares:				
Balance, beginning of year	893,761,639	$ 4,709	891,151,789	$ 4,676
Issued from treasury	48,200,000	1,000	–	–
Issued under Stock Option Plan	1,920,866	27	2,609,850	33
Balance, end of year	943,882,505	$ 5,736	893,761,639	$ 4,709

(1) The Company has designated outstanding Preferred Shares Series D and Series E as held for trading on the Consolidated Balance Sheets with changes in fair value reported in the Summaries of Consolidated Operations. During the year ended December 31, 2008 the Company recognized a reduction in financing costs of $33 ($6 for Series D and $27 for Series E) and $40 ($8 for Series D and $32 for Series E) for the year ended December 31, 2007. The redemption price at maturity is $25 per share plus accrued dividends.

15. Share Capital (cont'd)

Preferred shares

On November 27, 2008 the Company issued 9,200,000 Series J, 6.00% Non-Cumulative 5-Year Rate Reset First Preferred Shares. The shares are redeemable at the option of the Company on December 31, 2013 and on December 31 every five years thereafter for $25 per share plus all declared and unpaid dividends to the date fixed for redemption or are convertible to Series K First Preferred Shares at the option of the holders on December 31, 2013 and on December 31 every five years thereafter. Transaction costs incurred in connection with the Series J issue of $7 ($5 after-tax) were charged to surplus.

The Series D, 4.70% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after March 31, 2009 for $25 per share plus a premium if the shares are redeemed before March 31, 2011 or are convertible to variable amount of common shares of the Company at the option of the Company on or after March 31, 2009, and are convertible to a variable amount of common shares of the Company at the option of the holder on or after March 31, 2014.

The Series E, 4.80% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after September 30, 2009 for $25 per share plus a premium if the shares are redeemed before September 30, 2012 or are convertible to a variable amount of common shares of the Company at the option of the Company on or after September 30, 2009, and are convertible to a variable amount of common shares of the Company at the option of the holder on or after September 30, 2013.

The Series F, 5.90% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after September 30, 2008 for $25 per share plus a premium if the shares are redeemed before September 30, 2012.

The Series G, 5.20% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after December 31, 2009 for $25 per share plus a premium if the shares are redeemed before December 31, 2013.

The Series H, 4.85% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after September 30, 2010 for $25 per share plus a premium if the shares are redeemed before September 30, 2014.

The Series I, 4.50% Non-Cumulative First Preferred Shares are redeemable at the option of the Company on or after June 30, 2011, for $25 per share plus a premium if the shares are redeemed before June 30, 2015.

On November 26, 2008, the Company announced a Normal Course Issuer Bid commencing December 1, 2008 and terminating November 30, 2009 to purchase for cancellation up to but not more than 6,000,000 common shares.

During 2006, the Company announced a Normal Course Issuer Bid commencing December 1, 2006 and terminating November 30, 2007 to purchase for cancellation up to but not more than 790,000 Non-Cumulative First Preferred Shares, Series D, and 2,000,000 Non-Cumulative First Preferred Shares, Series E. During 2007, 40,400 Preferred Shares Series D, were purchased pursuant to the Company's Normal Course Issuer Bid for a total cost of $1 or an average of $25.77 per share.

Common Shares

On December 30, 2008, for general corporate purposes and to augment the Company's current liquidity position, 28,920,000 common shares were issued from treasury to the public and 19,280,000 common shares were issued via private placement to Power Financial Corporation for an aggregate value of $1,000 or $20.75 per share. Transaction costs incurred in connection with the common share issue of $24 ($16 after-tax) were charged to surplus.

16. Capital Management

At the holding company level, the Company monitors the amount of consolidated capital available, and the amounts deployed in its various operating subsidiaries. The amount of capital deployed in any particular company or country is dependent upon local regulatory requirements as well as the Company's internal assessment of capital requirements in the context of its operational risks and requirements, and strategic plans.

Since the timing of available funds cannot always be matched precisely to commitments, imbalances may arise when demands for funds exceed those on hand. Also, a demand for funds may arise as a result of the Company taking advantage of current investment opportunities. The sources of the funds that may be required in such situations include bank financing and the issuance of debentures and equity securities.

The Company's practice is to maintain the capitalization of its regulated operating subsidiaries at a level that will exceed the relevant minimum regulatory capital requirements in the jurisdictions in which they operate.

In Canada, the OSFI has established a capital adequacy measurement for life insurance companies incorporated under the Insurance Companies Act (Canada) and their subsidiaries, known as the Minimum Continuing Capital and Surplus Requirements (MCCSR).

For Canadian regulatory reporting purposes, capital is defined by OSFI in its MCCSR guideline.

The following table provides the MCCSR information and ratios for Great-West Life:

	2008	2007
Capital Available:		
Tier 1 Capital		
Common shares [(1)]	$ 6,116	$ 6,116
Shareholder surplus	5,604	4,672
Qualifying non-controlling interests	150	152
Innovative instruments	648	636
Other Tier 1 Capital Elements	1,513	1,337
Gross Tier 1 Capital	14,031	12,913
Deductions from Tier 1:		
Goodwill & intangible assets in excess of limit	5,673	5,724
Other deductions	1,697	1,219
Net Tier 1 Capital	6,661	5,970
Tier 2 Capital		
Tier 2A	345	456
Tier 2B allowed	300	502
Tier 2C	1,550	1,262
Tier 2 Capital Allowed	2,195	2,220
Total Tier 1 and Tier 2 Capital	8,856	8,190
Less: Deductions/Adjustments	124	101
Total Available Capital	$ 8,732	$ 8,089
Capital Required:		
Assets Default & market risk	$ 1,510	$ 1,457
Insurance Risks	1,800	1,675
Interest Rate Risks	803	888
Other	50	(76)
Total Capital Required	$ 4,163	$ 3,944
MCCSR ratios:		
Tier 1	160%	151%
Total	210%	205%

(1) The $1,230 of common and preferred share capital that was raised by the Company in the fourth quarter remained at the holding company as at December 31, 2008.

In the United States, GWL&A is subject to comprehensive state and federal regulation and supervision throughout the United States. The National Association of Insurance Commissioners (NAIC) has adopted risk-based capital rules and other financial ratios for U.S. life insurance companies. At the end of 2008 the risk-based capital (RBC) ratio for GWL&A was 406%, in excess of that required by NAIC.

As at December 31, 2008 and 2007 the Company maintained capital levels above the minimum local requirements in its other foreign operations.

The Company is both a user and a provider of reinsurance, including both traditional reinsurance, which is undertaken primarily to mitigate against assumed insurance risks, and financial or finite reinsurance, under which the amount of insurance risk passed to the reinsurer or its reinsureds may be more limited.

The capitalization of the Company and its operating subsidiaries will also take into account the views expressed by the various credit rating agencies that provide financial strength and other ratings to the Company.

The Company has also established policies and procedures designed to identify, measure and report all material risks. Management is responsible for establishing capital management procedures for implementing and monitoring the capital plan. The Board of Directors reviews and approves all capital transactions undertaken by management.

17. Stock Based Compensation

(a) The Company has a stock option plan (the Plan) pursuant to which options to subscribe for common shares of Lifeco may be granted to certain officers and employees of Lifeco and its affiliates. The Company's Compensation Committee (the Committee) administers the Plan and, subject to the specific provisions of the Plan, fixes the terms and conditions upon which options are granted. The exercise price of each option granted under the Plan is fixed by the Committee, but cannot under any circumstances be less than the weighted-average trading price per Lifeco common share on the Toronto Stock Exchange for the five trading days preceding the date of the grant. Termination of employment may, in certain circumstances, result in forfeiture of the options, unless otherwise determined by the Committee.

To date, four categories of options have been granted under the Plan. The exercise of the options in three of these four categories is subject to the attainment of certain financial targets by certain of the Company's subsidiaries. In two of these categories the financial targets have been attained. All of the options have a maximum exercise period of ten years. The maximum number of Lifeco common shares that may be issued under the Plan is currently 52,600,000.

The following table summarizes the status of, and changes in, options outstanding and the weighted-average exercise price:

	2008		2007	
	Options	Weighted-average exercise price	Options	Weighted-average exercise price
Outstanding, beginning of year	**15,156,685**	**$ 21.26**	15,996,935	$ 17.96
Granted	**4,158,270**	**30.76**	1,913,000	37.06
Exercised	**(1,920,866)**	**13.24**	(2,609,850)	12.25
Forfeited	**(153,624)**	**33.57**	(143,400)	27.97
Outstanding, end of year	**17,240,465**	**$ 24.33**	15,156,685	$ 21.26
Options exercisable at end of year	**10,048,715**	**$ 18.89**	10,842,185	$ 17.19

The weighted average fair value of options granted during 2008 was $3.11 per option ($7.41 per option granted during 2007). The fair value of each option was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions used for those options granted in 2008 and 2007 respectively: dividend yield 3.80% (2.85%), expected volatility 13.78% (19.17%), risk-free interest rate 3.36% (4.03%), and expected life of 7 years (8 years).

In accordance with the fair value based method of accounting, compensation expense of $11 after-tax in 2008 ($8 in 2007) has been recognized in the Summaries of Consolidated Operations.

The following table summarizes information on the ranges of exercise prices including weighted-average remaining contractual life at December 31, 2008:

	Outstanding			Exercisable		
Exercise price ranges	Options	Weighted-average remaining contractual life	Weighted-average exercise price	Options	Weighted-average exercise price	Expiry
$11.93 – $13.63	135,650	0.23	13.32	135,650	13.32	2009
$11.14 – $13.22	3,458,176	1.50	12.73	3,458,176	12.73	2010
$17.14 – $17.70	1,279,044	3.85	17.20	1,279,044	17.20	2011
$17.20	57,000	3.58	17.20	57,000	17.20	2012
$18.84 – $20.83	2,838,825	4.47	19.38	2,777,225	19.38	2013
$24.17 – $26.00	733,000	5.36	25.24	637,200	25.23	2014
$28.26 – $29.84	2,766,700	6.95	29.75	1,628,700	29.75	2015
$35.36 – $37.22	1,813,800	8.20	37.05	75,720	37.06	2017
$28.59 – $31.27	4,158,270	7.26	30.76	–	–	2018

(b) Effective September 25, 2007, Putnam sponsored the Putnam Investments, LLC Equity Incentive Plan (the EIP). Under the terms of the EIP, Putnam is authorized to grant or sell Class B Shares of Putnam LLC (the Putnam Class B Shares), subject to certain restrictions and to grant options to purchase Putnam Class B Shares (collectively, the Awards) to certain senior management and key employees of Putnam. Holders of Putnam Class B Shares are not entitled to vote and have no rights to convert their shares into any other securities. The number of Putnam Class B Shares that may be subject to Awards under the EIP is limited to 10,000,000.

During 2008, Putnam LLC granted 3,596,437 and 1,179,802 restricted Class B common shares and Class B stock options to certain members of senior management and key employees. Compensation expense recorded for the year ended December 31, 2008 related to restricted Class B common shares and Class B stock options earned was $12.

Also refer to note 14(b).

18. Pension Plans and Other Post-Retirement Benefits

The Company's subsidiaries maintain contributory and non-contributory defined benefit pension plans for certain employees and advisors. The Company's subsidiaries also maintain defined contribution pension plans for certain employees and advisors.

The defined benefit pension plans provide pensions based on length of service and final average pay. Certain pension payments are indexed either on an ad hoc basis or a guaranteed basis. The determination of the accrued benefit obligation reflects only pension benefits guaranteed under the terms of the plans. As future salary levels affect the amount of future employee benefits, the projected benefit method prorated on service has been used to determine the accrued benefit obligation. The assets supporting the funded pension plans are held in separate trusteed pension funds and are valued at fair value. The obligations for the unfunded plans are included in other liabilities and are supported by general assets. The recognized current cost of pension benefits is charged to earnings.

The defined contribution pension plans provide pension benefits based on accumulated employee and Company contributions. Company contributions to these plans are a set percentage of employees' annual income and may be subject to certain vesting requirements. In mid-2007, the Company acquired Putnam that provides a defined contribution pension plan to its employees. Accordingly, the Company contributions to defined contribution pension plans in 2008 are greater than in 2007.

The Company's subsidiaries also provide post-retirement health, dental and life insurance benefits to eligible employees, advisors and their dependents. Retirees share in the cost of benefits through deductibles, co-insurance and caps on benefits. As the amount of some of the post-retirement benefits other than pensions depend on future salary levels and future cost escalation, the projected benefit method prorated on services has been used to determine the accrued benefit obligation. These post-retirement benefits are not pre-funded and the amount of the obligation for these benefits is included in other liabilities and is supported by general assets. The recognized current cost of post-retirement non-pension benefits is charged to earnings.

Past service costs for pension plans and other post-retirement benefits are amortized over the period in which the economic benefit is realized, usually over the expected average remaining service life of the affected employee/advisor group. Transitional assets and transitional obligations are amortized over the expected average remaining service life of the employee/advisor group. Prior years' cumulative experience gains or losses in excess of the greater of 10% of the beginning of year plan assets and accrued benefit obligation are amortized over the expected average remaining service life of the employee/advisor group.

In 2008, a subsidiary of the Company divested a portion of its business. As a result, all of the subsidiary's defined benefit plans were partially curtailed. In accordance with accounting standards, the financial effect of the curtailment was reflected as part of the sale rather than as part of the pension and benefits expense.

Subsidiaries of the Company have declared partial windups in respect of certain defined benefit pension plans, the impact of which has not been reflected in the pension plan accounts.

18. Pension Plans and Other Post-Retirement Benefits (cont'd)

The following tables reflect the financial information on the Company's contributory and non-contributory defined benefit and defined contribution pension plans at December 31, 2008 and 2007:

(a) Plan Assets, Benefit Obligation and Funded Status

	Defined benefit pension plans		Other post-retirement benefits	
	2008	2007	2008	2007
Change in Plan Assets				
Fair value of assets, beginning of year	$ 3,142	$ 3,218	$ –	$ –
Employee contributions	15	13	–	–
Employer contributions	44	29	16	17
Return on plan assets	(465)	116	–	–
Benefits paid	(149)	(136)	(16)	(17)
Acquisitions	–	2	–	–
Foreign exchange rate changes	52	(100)	–	–
Fair value of assets, end of year	$ 2,639	$ 3,142	$ –	$ –
Change in Accrued Benefit Obligation				
Accrued benefit obligation, beginning of year	$ 2,784	$ 3,031	$ 379	$ 398
Reclassification of liability	14	13	–	–
Employer current service cost	62	74	3	5
Employee contributions	15	13	–	–
Interest on accrued benefit obligation	160	151	21	20
Actuarial (gains) losses	(364)	(241)	(65)	(26)
Benefits paid	(149)	(136)	(16)	(17)
Past service cost	(1)	(6)	–	–
Curtailments and settlements	(18)	–	(10)	–
Acquisitions	–	9	–	4
Special termination benefits	2	–	–	–
Foreign exchange rate changes	76	(124)	5	(5)
Accrued benefit obligation, end of year	$ 2,581	$ 2,784	$ 317	$ 379
Net funded status	$ 58	$ 358	$ (317)	$ (379)
Employer contributions after measurement date	21	2	1	1
Unamortized past service costs (credits)	(125)	(135)	(62)	(89)
Unamortized net losses (gains)	254	(55)	(34)	38
Unamortized transitional obligation	2	3	–	–
Valuation allowance	(74)	(56)	–	–
Accrued benefit asset (liability)	$ 136	$ 117	$ (412)	$ (429)
Recorded in:				
Other assets	$ 274	$ 228	$ –	$ –
Other liabilities	(138)	(111)	(412)	(429)
Accrued benefit asset (liability)	$ 136	$ 117	$ (412)	$ (429)
Plans with accrued benefit obligations in excess of plan assets (1):				
Plans With Plan Assets				
Fair value of plan assets	$ 518	$ 583		
Accrued benefit obligation	(675)	(671)		
Plan deficit	$ (157)	$ (88)		
Plans Without Plan Assets				
Accrued benefit obligation – Plan deficit	$ (188)	$ (185)	$ (317)	$ (379)

(1) The above plans' assets and accrued benefit obligations are disclosed separately as the accrued benefit obligations exceed the fair value of the plans' assets. These amounts have been included in previously aggregated results.

(b) Benefit Expense and Cash Payments

	All pension plans		Other post-retirement benefits	
	2008	2007	2008	2007
Costs Recognized				
Amounts arising from events in the period				
Defined benefit service cost	$ 77	$ 87	$ 3	$ 5
Defined contribution service cost	35	22	–	–
Employee contributions	(15)	(13)	–	–
Employer service cost	97	96	3	5
Past service cost	(1)	(6)	–	–
Interest cost on accrued benefit obligation	160	151	21	20
Actual return on plan assets	465	(116)	–	–
Actuarial (gain) loss on accrued benefit obligation	(364)	(241)	(65)	(26)
Cost incurred	357	(116)	(41)	(1)
Adjustments to reflect costs recognized				
Difference between actual and expected return on plan assets	(670)	(94)	–	–
Difference between actuarial gains (losses) arising during the period and actuarial gains (losses) amortized	357	248	66	30
Amortization of transitional obligations	1	1	–	–
Difference between past service costs arising in period and past service costs amortized	(10)	(4)	(9)	(12)
Decrease in valuation allowance	18	–	–	–
Net benefit cost recognized for the period	$ 53	$ 35	$ 16	$ 17
Cash payments				
Contributions – Funded defined benefit plans	$ 46	$ 17	$ –	$ –
– Funded defined contribution plans	35	22	–	–
Benefits paid for unfunded plans	17	8	16	16
Total cash payment	$ 98	$ 47	$ 16	$ 16

(c) Measurement and Valuation

Measurement date is November 30. The dates of actuarial valuations for funding purposes for the funded defined benefit pension plans (weighted by accrued benefit obligation) are:

Most recent valuation	% of plans	Next required valuation	% of plans
December 31, 2005	21%	December 31, 2008	40%
December 31, 2006	30%	December 31, 2009	30%
April 1, 2007	5%	April 1, 2010	5%
December 31, 2007	44%	December 31, 2010	25%

The fair value of assets is used to determine the expected return on assets.

(d) Asset Allocation by Major Category Weighted by Plan Assets

	Defined benefit pension plans	
	2008	2007
Equity securities	44%	52%
Debt securities	41%	37%
Real estate	5%	5%
Cash and cash equivalents	10%	6%
	100%	100%

No plan assets are directly invested in the Company's or related parties' securities. Nominal amounts may be invested in the Company's or related parties' securities through investment in pooled funds.

18. Pension Plans and Other Post-Retirement Benefits (cont'd)

(e) Significant Weighted Average Assumptions

Significant assumptions

	Defined benefit pension plans		Other post-retirement benefits	
	2008	2007	2008	2007
To determine benefit cost:				
Discount rate	**5.9%**	5.1%	**5.8%**	5.1%
Expected long-term rate of return on plan assets	**6.6%**	6.7%	**–**	–
Rate of compensation increase	**4.2%**	4.1%	**4.2%**	4.2%
To determine accrued benefit obligation:				
Discount rate	**6.8%**	5.9%	**7.1%**	5.8%
Rate of compensation increase	**4.2%**	4.2%	**3.9%**	4.2%
Health care trend rates:				
Initial health care trend rate			**7.2%**	6.6%
Ultimate health care trend rate			**5.0%**	4.8%
Year ultimate trend rate is reached			**2012**	2012

(f) Impact of Changes to Assumed Health Care Rates – Other Post-Retirement Benefits

	1% increase		1% decrease	
	2008	2007	2008	2007
Impact on accrued benefit obligation	**$ 28**	$ 40	**$ (23)**	$ (33)
Impact on service and interest cost	**$ 3**	$ 3	**$ (2)**	$ (2)

19. Earnings per Common Share

The following table provides the reconciliation between basic and diluted earnings per common share:

	2008	2007
(a) Earnings		
Net income from continuing operations	**$ 761**	$ 1,908
Net income from discontinued operations	**692**	203
Net income	**$ 1,453**	$ 2,111
Perpetual preferred share dividends	**57**	55
Net income – common shareholders	**$ 1,396**	$ 2,056
(b) Number of common shares		
Average number of common shares outstanding	**894,849,384**	892,227,627
Add:		
– Potential exercise of outstanding stock options	**3,804,656**	6,702,666
Average number of common shares outstanding – diluted basis	**898,654,040**	898,930,293
Basic earnings per common share		
From continuing operations	**$ 0.787**	$ 2.076
From discontinued operations	**0.773**	0.228
	$ 1.560	$ 2.304
Diluted earnings per common share		
From continuing operations	**$ 0.783**	$ 2.061
From discontinued operations	**0.770**	0.226
	$ 1.553	$ 2.287

20. Accumulated Other Comprehensive Income (Loss)

	2008					
	Unrealized foreign exchange gains (losses) on translation of foreign operations	Unrealized gains (losses) on available-for-sale assets	Unrealized gains (losses) on cash flow hedges	Total	Non-controlling interest	Shareholder
Balance, beginning of year	$ (1,801)	$ 174	$ 13	$ (1,614)	$ 81	$ (1,533)
Other comprehensive income (loss)	1,197	(311)	(324)	562	(28)	534
Income tax	(1)	101	114	214	(2)	212
	1,196	(210)	(210)	776	(30)	746
Balance, end of year	$ (605)	$ (36)	$ (197)	$ (838)	$ 51	$ (787)

	2007					
	Unrealized foreign exchange gains (losses) on translation of foreign operations	Unrealized gains (losses) on available-for-sale assets	Unrealized gains (losses) on cash flow hedges	Total	Non-controlling interest	Shareholder
Balance, beginning of year	$ (591)	$ –	$ –	$ (591)	$ 44	$ (547)
Opening transition adjustment	–	379	–	379	(19)	360
Income tax	–	(108)	–	(108)	5	(103)
	–	271	–	271	(14)	257
Other comprehensive income (loss)	(1,210)	(132)	19	(1,323)	56	(1,267)
Income tax	–	35	(6)	29	(5)	24
	(1,210)	(97)	13	(1,294)	51	(1,243)
Balance, end of year	$ (1,801)	$ 174	$ 13	$ (1,614)	$ 81	$ (1,533)

21. Related Party Transactions

In the normal course of business, Great-West Life provided insurance benefits to other companies within the Power Financial Corporation, Lifeco's parent, group of companies. In all cases, transactions were at market terms and conditions.

During the year, Great-West Life provided to and received from IGM Financial Inc. and its subsidiaries (IGM), a member of the Power Financial Corporation group of companies, certain administrative services. Great-West Life also provided life insurance, annuity and disability insurance products under a distribution agreement with IGM. London Life provided distribution services to IGM. All transactions were provided on terms and conditions at least as favourable as market terms and conditions.

At December 31, 2008 the Company held $36 ($13 in 2007) of debentures issued by IGM.

During 2008, Great-West Life, London Life, and segregated funds maintained by London Life purchased residential mortgages of $144 from IGM ($154 in 2007). Great-West Life, London Life and Canada Life sold residential mortgages of $3 ($4 in 2007) to segregated funds maintained by Great-West Life and $66 ($98 in 2007) to segregated funds maintained by London Life. All transactions were at market terms and conditions.

22. Income Taxes

(a) Future income taxes consist of the following taxable temporary differences on:

	2008	2007
Policy liabilities	$ 433	$ 557
Portfolio investments	(305)	35
Other	1,229	(334)
Future income taxes receivable (payable)	$ 1,357	$ 258
Recorded in:		
Other assets	$ 1,674	$ 530
Other liabilities	(317)	(272)
	$ 1,357	$ 258

22. Income Taxes (cont'd)

Other assets above includes $818 related to the goodwill and intangible impairment charge recorded in the fourth quarter of 2008 by a subsidiary in the United States. As part of the intangible and goodwill testing, the future tax asset in the United States subsidiary was evaluated, and it was concluded that a valuation allowance was not required based upon the 20 year carryforward of this amount combined with tax planning opportunities.

(b) The Company's effective income tax rate is derived as follows:

	2008		2007	
Combined basic Canadian federal and provincial tax rate	$ 122	32.5 %	$ 927	35.0%
Increase (decrease) in the income tax rate resulting from:				
Non-taxable investment income	(136)	(36.2)	(159)	(6.0)
Lower effective tax rates on income not subject to tax in Canada	(217)	(57.9)	(159)	(6.0)
Miscellaneous	(48)	(12.7)	(50)	(1.9)
Impact of rate changes on future income taxes	1	0.2	23	0.9
Effective income tax rate applicable to current year	$ (278)	(74.1)%	$ 582	22.0%

The effective tax rate of (74.1)% would be 21.1% excluding the impact of the goodwill and intangible impairment charge described in note 7.

In conjunction with the goodwill and intangible impairment charge, the company also wrote off a future tax asset with regards to State taxes in the amount of $34 ($28 U.S.). This amount is included in miscellaneous.

At December 31, 2008, the Company has tax loss carryforwards totalling $4,552 ($2,735 in 2007). Of this amount, $1,969 expire between 2009 and 2028, while $2,583 have no expiry date. The future tax benefit of these loss carryforwards has been recognized, to the extent that they are more likely than not to be realized, in the amount of $1,325 ($743 in 2007) in future tax assets. The Company will realize this benefit in future years through a reduction in current income taxes payable.

23. Derivative Financial Instruments

In the normal course of managing exposure to fluctuations in interest and foreign exchange rates, and to market risks, the Company is an end user of various derivative financial instruments. It is the Company's policy to transact in derivatives only with the most creditworthy financial intermediaries. Note 5 illustrates the credit quality of the Company's exposure to counterparties.

(a) The following table summarizes the Company's derivative portfolio and related credit exposure:

2008	Notional amount	Maximum credit risk*	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Futures – long	$ 119	$ –	$ –	$ –	$ –
Futures – short	99	–	–	–	–
Swaps	2,426	380	18	398	75
Options purchased	308	54	5	59	12
	2,952	434	23	457	87
Foreign exchange contracts					
Forward contracts	141	2	1	3	1
Cross-currency swaps	6,692	215	464	679	134
	6,833	217	465	682	135
Other derivative contracts					
Equity contracts	89	1	5	6	1
Credit default swaps	67	–	–	–	2
	156	1	5	6	3
	$ 9,941	$ 652	$ 493	$ 1,145	$ 225

*Maximum credit risk does not include collateral paid of $25.

2007	Notional amount	Maximum credit risk*	Future credit exposure	Credit risk equivalent	Risk weighted equivalent
Interest rate contracts					
Futures – long	$ 190	$ –	$ –	$ –	$ –
Futures – short	47	–	–	–	–
Interest rate swaps	2,346	136	19	155	41
Options purchased	536	38	8	46	9
	3,119	174	27	201	50
Foreign exchange contracts					
Forward contracts	1,486	8	15	23	5
Cross-currency swaps	5,539	791	383	1,174	229
	7,025	799	398	1,197	234
Other derivative contracts					
Equity contracts	131	–	7	7	2
Credit default swaps	55	–	–	–	1
	186	–	7	7	3
	$ 10,330	$ 973	$ 432	$ 1,405	$ 287

*Maximum credit risk does not include a reduction for collateral received of $49.

The following table provides the notional amount, term to maturity and estimated fair value of the Company's derivative portfolio by category:

2008	Notional amount: 1 year or less	Notional amount: 1–5 years	Notional amount: Over 5 years	Notional amount: Total	Total estimated fair value
Derivatives not designated as accounting hedges					
Interest rate contracts					
Futures – long	$ 119	$ –	$ –	$ 119	$ –
Futures – short	39	–	–	39	–
Swaps	751	699	898	2,348	313
Options purchased	–	–	308	308	54
	909	699	1,206	2,814	367
Foreign exchange contracts					
Forward contracts	141	–	–	141	2
Cross-currency swaps	234	898	4,060	5,192	(508)
	375	898	4,060	5,333	(506)
Other derivative contracts					
Equity contracts	61	17	11	89	(18)
Credit default swaps	67	–	–	67	(2)
	128	17	11	156	(20)
	1,412	1,614	5,277	8,303	(159)
Cash flow hedges					
Interest rate contracts					
Swaps	–	–	78	78	32
Foreign exchange contracts					
Cross-currency swaps	–	–	1,500	1,500	(340)
Fair value hedges					
Interest rate contracts					
Futures – short	60	–	–	60	–
Total	$ 1,472	$ 1,614	$ 6,855	$ 9,941	$ (467)

23. Derivative Financial Instruments (cont'd)

2007	Notional amount 1 year or less	1–5 years	Over 5 years	Total	Total estimated fair value
Derivatives not designated as accounting hedges					
Interest rate contracts					
Futures – long	$ 160	$ –	$ –	$ 160	$ –
Futures – short	47	–	–	47	–
Interest rate swaps	808	471	558	1,837	127
Options purchased	–	–	536	536	38
	1,015	471	1,094	2,580	165
Foreign exchange contracts					
Forward contracts	38	–	–	38	–
Cross-currency swaps	123	934	3,472	4,529	736
	161	934	3,472	4,567	736
Other derivative contracts					
Equity contracts	95	15	21	131	(36)
Credit default swaps	–	55	–	55	–
	95	70	21	186	(36)
	1,271	1,475	4,587	7,333	865
Cash flow hedges					
Interest rate contracts					
Futures – long	30	–	–	30	–
Interest rate swaps	–	–	509	509	(16)
	30	–	509	539	(16)
Foreign exchange contracts					
Cross-currency swaps	10	–	1,000	1,010	30
	40	–	1,509	1,549	14
Net investment hedges					
Foreign exchange contracts					
Forward contracts	1,448	–	–	1,448	(18)
Total	$ 2,759	$ 1,475	$ 6,096	$ 10,330	$ 861

(b) ***Interest Rate Contracts***

Interest rate swaps, futures and options are used as part of a portfolio of assets to manage interest rate risk associated with actuarial liabilities. Interest rate swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based. Written call options are used with interest rate swaps to effectively convert convertible, fixed rate bonds to non-convertible variable rate securities as part of the Company's overall asset/liability matching program. The written call option hedges the Company's exposure to the convertibility feature on the bonds.

Foreign Exchange Contracts

Cross-currency swaps are used in combination with other investments to manage foreign currency risk associated with actuarial liabilities. Under these swaps principal amounts and fixed or floating interest payments may be exchanged in different currencies. The Company also enters into certain foreign exchange forward contracts to hedge certain product liabilities and to hedge a portion of the translation of the net investment in its foreign operations.

Other Derivative Contracts

Equity index swaps, futures and options are used to hedge certain product liabilities. Equity index swaps are also used as substitutes for cash instruments and are used to hedge the market risk associated with certain fee income.

The Company uses credit derivatives to manage its credit exposures and for risk diversification in its investment portfolio.

24. Reinsurance Transactions

(a) On February 14, 2008, the Company's indirect wholly-owned Irish reinsurance subsidiary, Canada Life International Re Limited, signed an agreement with Standard Life Assurance Limited, a U.K. based provider of life, pension and investment products, to assume by way of indemnity reinsurance, a large block of U.K. payout annuities. The reinsurance transaction increased premium income, paid or credited to policyholders, funds held by ceding insurers and policy liabilities by $12.5 billion.

(b) During 2008, the Company's indirect wholly-owned U.K. subsidiary, Canada Life Limited, entered into two agreements with two financial institutions to provide long-term mortality exposure management on an in-force block of payout annuity business representing $2.8 billion of actuarial liabilities. These agreements exchange variable annuitant payments for a schedule of fixed payments. One of the agreements has no end date while the other matures in 40 years.

(c) During 2007, Great-West Life and London Life recaptured the remaining 50% of a reinsurance agreement on certain blocks of group life and long-term disability business. The recaptured premiums of $1,574 associated with the transaction have been recorded in the Summaries of Consolidated Operations as an increase to premium income with a corresponding increase to the change in actuarial liabilities and provision for claims. For the Consolidated Balance Sheets, this transaction resulted in a reduction of $1,831 to funds held under reinsurance contracts with a corresponding increase in policyholder liabilities.

25. Contingent Liabilities

The Company and its subsidiaries are from time to time subject to legal actions, including arbitrations and class actions, arising in the normal course of business. It is not expected that any of the existing legal actions will have a material adverse effect on the consolidated financial position of the Company.

In addition, there are class proceedings in Ontario regarding the participation of the London Life and Great-West Life participating accounts in the financing of the acquisition of LIG in 1997 by Great-West Life. It is difficult to predict the outcome of these proceedings with certainty. However, based on information presently known, these proceedings are not expected to have a material adverse effect on the consolidated financial position of the Company.

Subsidiaries of the Company have declared partial windups in respect of certain Ontario defined benefit pension plans which will not likely be completed for some time. The partial windups could involve the distribution of the amount of actuarial surplus, if any, attributable to the wound up portion of the plans. However, many issues remain unclear, including the basis of surplus measurement and entitlement, and the method by which any surplus distribution would be implemented. In addition to the regulatory proceedings involving these partial windups, related proposed class action proceedings have been commenced in Ontario related to certain of the partial windups. In the third quarter, 2007 the Company's subsidiaries established provisions for certain Canadian retirement plans in the amounts of $97 after-tax. Actual results could differ from these estimates.

A subsidiary of the Company is involved in an ongoing arbitration relating to the interpretation of certain provisions of reinsurance treaties. In addition, certain reinsurance client loss statements relating to other reinsurance treaties are in dispute and may become subject to arbitration or other legal action in the future. While there is retrocession coverage in place for these other treaties, payment of amounts due under these retrocession treaties is contingent upon collection by the retrocessionaire under a separate financial arrangement with another party. We understand that the provisions of this separate financial arrangement are also in dispute. The Company's subsidiary has established an actuarial provision for these two matters. Based on information presently known, it is difficult to predict the outcome of these matters with certainty. These matters are not expected to have a material adverse effect on the consolidated financial position of the Company.

Legal proceedings have been commenced against a private equity vehicle in which subsidiaries of the Company have an ownership interest. Another subsidiary of the Company has established a provision related to these legal proceedings. Actual results could differ from these estimates. These proceedings are in their early stages and it is difficult to predict the outcome with certainty. Based on information presently known, these proceedings are not expected to have a material adverse effect on the consolidated financial position of the Company.

In connection with the acquisition of its subsidiary Putnam, the Company has an indemnity from a third party against liabilities arising from certain litigation and regulatory actions involving Putnam. Putnam continues to have potential liability for these matters in the event the indemnity is not honoured. The Company expects the indemnity will continue to be honoured and that any liability of Putnam would not have a material adverse effect on the consolidated financial position of the Company.

26. Commitments

(a) **Syndicated Letters of Credit**

Clients residing in the United States are required pursuant to their insurance laws to obtain letters of credit issued on LRG's behalf from approved banks in order to further secure LRG's obligations under certain reinsurance contracts.

LRG has a syndicated letter of credit facility providing U.S. $650 in letters of credit capacity. The facility was arranged in 2005 for a five year term expiring November 15, 2010. Under the terms and conditions of the facility, collateralization may be required if a default under the letter of credit agreement occurs. LRG has issued U.S. $622 in letters of credit under the facility as at December 31, 2008 (U.S. $591 at December 31, 2007).

26. Commitments (cont'd)

In addition, LRG has other bilateral letter of credit facilities totalling U.S. $18 (2007 – U.S. $18). LRG has issued U.S. $7 in letters of credit under these facilities as at December 31, 2008.

(b) Other Letters of Credit

Canada Life issues letters of credit in the normal course of business. Letters of credit in the amount of $1 were outstanding at December 31, 2008 ($1 at December 31, 2007), none of which have been drawn upon at that date.

(c) Lease Obligations

The Company enters into operating leases for office space and certain equipment used in the normal course of operations. Lease payments are charged to operations over the period of use. The future minimum lease payments in aggregate and by year are as follows:

	2009	2010	2011	2012	2013	2014 and thereafter	Total
Future lease payments	$ 113	91	73	63	50	207	$ 597

27. Segmented Information

In Canada, Great-West Life and its operating subsidiaries, London Life and Canada Life offer a broad portfolio of financial and benefit plan solutions for individuals, families, businesses and organizations, through a network of Freedom 55 Financial and Great-West Life financial security advisors, and through a multi-channel network of brokers, advisors and financial institutions.

In the United States, GWL&A is a leader in meeting the retirement income needs of employees in the public/non-profit and corporate sectors. It serves its customers nationwide through a range of financial products and services marketed through brokers, consultants and group representatives, and through partnerships with other financial institutions. Putnam provides investment management, certain administrative functions, distribution, and related services through a broad range of investment products, including the Putnam Funds, its own family of mutual funds which are offered to individual and institutional investors.

In Europe, Canada Life is broadly organized along geographically defined market segments and offers protection and wealth management products including payout annuity products, and reinsurance. The Europe segment is comprised of two distinct business units: Insurance & Annuities, which consists of operations in the United Kingdom, Isle of Man, Republic of Ireland and Germany; and Reinsurance, which operates primarily in the United States, Barbados and Ireland. Reinsurance products are provided through Canada Life, LRG and their subsidiaries.

The Lifeco Corporate segment represents the Lifeco holding company activities and transactions that are not directly attributable to measurement of the business segments of the Company.

(a) Consolidated Operations

	2008				
	Canada	United States	Europe	Lifeco Corporate	Total
Income:					
Premium income	$ 8,197	$ 2,683	$ 19,127	$ –	$ 30,007
Net investment income					
Regular net investment income	2,367	1,345	2,262	(12)	5,962
Changes in fair value on held for trading assets	(2,168)	(1,286)	(1,707)	–	(5,161)
Total net investment income	199	59	555	(12)	801
Fee and other income	1,034	1,442	648	–	3,124
Total income	9,430	4,184	20,330	(12)	33,932
Benefits and expenses:					
Paid or credited to policyholders	5,748	2,366	18,660	–	26,774
Other	2,189	1,535	759	11	4,494
Amortization of finite life intangible assets	14	23	4	–	41
Restructuring costs	–	70	–	–	70
Intangible and goodwill impairment	–	2,178	–	–	2,178
Net operating income before income taxes	1,479	(1,988)	907	(23)	375
Income taxes	360	(799)	164	(3)	(278)
Net income before non-controlling interests	1,119	(1,189)	743	(20)	653
Non-controlling interests	73	(184)	3	–	(108)
Net income from continuing operations	1,046	(1,005)	740	(20)	761
Net income from discontinued operations	–	692	–	–	692
Net income	1,046	(313)	740	(20)	1,453
Perpetual preferred share dividends	43	–	14	–	57
Net income – common shareholders	$ 1,003	$ (313)	$ 726	$ (20)	$ 1,396

	2007				
	Canada	United States	Europe	Lifeco Corporate	Total
Income:					
Premium income	$ 8,916	$ 1,910	$ 7,927	$ –	$ 18,753
Net investment income					
Regular net investment income	2,546	1,337	1,663	19	5,565
Changes in fair value on held for trading assets	(421)	(58)	(619)	–	(1,098)
Total net investment income	2,125	1,279	1,044	19	4,467
Fee and other income	1,029	1,001	673	–	2,703
Total income	12,070	4,190	9,644	19	25,923
Benefits and expenses:					
Paid or credited to policyholders	8,397	2,631	8,094	–	19,122
Other	2,163	1,027	768	162	4,120
Amortization of finite life intangible assets	14	14	4	–	32
Net operating income before income taxes	1,496	518	778	(143)	2,649
Income taxes	353	138	137	(46)	582
Net income before non-controlling interests	1,143	380	641	(97)	2,067
Non-controlling interests	128	14	17	–	159
Net income from continuing operations	1,015	366	624	(97)	1,908
Net income from discontinued operations	–	203	–	–	203
Net income	1,015	569	624	(97)	2,111
Perpetual preferred share dividends	42	–	13	–	55
Net income – common shareholders	$ 973	$ 569	$ 611	$ (97)	$ 2,056

(b) Consolidated Total Assets

	2008			
	Canada	**United States**	**Europe**	**Total**
Assets				
Invested assets	**$ 46,240**	**$ 26,277**	**$ 30,535**	**$ 103,052**
Goodwill and intangible assets	**4,973**	**2,102**	**1,722**	**8,797**
Other assets	**1,961**	**3,544**	**12,720**	**18,225**
Total assets	**$ 53,174**	**$ 31,923**	**$ 44,977**	**$ 130,074**

	2007			
	Canada	United States	Europe	Total
Assets				
Invested assets	$ 45,148	$ 23,045	$ 31,802	$ 99,995
Assets for operations held for sale	–	697	–	697
Goodwill and intangible assets	4,966	3,519	1,727	10,212
Other assets	2,363	2,439	2,488	7,290
Total assets	$ 52,477	$ 29,700	$ 36,017	$ 118,194

28. Subsequent Event

On January 19, 2009, PanAgora, a subsidiary of Putnam LLC, sold its equity investment in Union PanAgora Asset Management GmbH to Union Asset Management, gross proceeds received of approximately U.S. $77 resulted in a gain to PanAgora of approximately U.S. $68 on a pre-tax basis.

AUDITORS' REPORT

To the Shareholders of
Great-West Lifeco Inc.

We have audited the consolidated balance sheets of Great-West Lifeco Inc. as at December 31, 2008 and 2007 and the summaries of consolidated operations, the consolidated statements of surplus, the summaries of consolidated comprehensive income and the consolidated statements of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Winnipeg, Manitoba
February 12, 2009

FIVE YEAR SUMMARY

(in millions of dollars except per share amounts)

	2008	2007	2006	2005	2004
At December 31					
Total assets under administration	**$ 338,944**	$ 386,537	$ 212,484	$ 178,686	$ 165,891
For the Year Ended December 31					
Premiums:					
Life insurance, guaranteed annuities and insured health products	**$ 30,007**	$ 18,753	$ 17,752	$ 15,410	$ 14,140
Self-funded premium equivalents (ASO contracts)	**2,410**	2,233	2,145	1,955	1,863
Segregated funds deposits:					
Individual products	**7,825**	9,183	8,420	6,254	5,501
Group products	**5,524**	5,788	5,240	5,040	6,406
Proprietary mutual funds deposits	**30,693**	11,183	629	440	260
Net premiums and deposits	**$ 76,459**	$ 47,140	$ 34,186	$ 29,099	$ 28,170
Condensed Summary of Operations					
Income					
Premium income	**$ 30,007**	$ 18,753	$ 17,752	$ 15,410	$ 14,140
Net investment income					
Regular net investment income	**5,962**	5,565	5,836	5,317	5,326
Changes in fair value on held for trading assets	**(5,161)**	(1,098)	–	–	–
Total net investment income	**801**	4,467	5,836	5,317	5,326
Fee and other income	**3,124**	2,703	1,894	1,623	1,432
Total income	**33,932**	25,923	25,482	22,350	20,898
Benefits and Expenses					
Paid or credited to policyholders	**26,774**	19,122	19,660	17,019	15,697
Other	**4,494**	4,120	3,384	3,149	3,173
Amortization of intangible assets	**41**	32	18	18	18
Restructuring costs	**70**	–	–	22	44
Intangible and goodwill impairment	**2,178**	–	–	–	–
Net income from continuing operations before income taxes	**375**	2,649	2,420	2,142	1,966
Income taxes	**(278)**	582	522	492	450
Net income from continuing operations before non-controlling interests	**653**	2,067	1,898	1,650	1,516
Non-controlling interests	**(108)**	159	162	113	136
Net income from continuing operations	**761**	1,908	1,736	1,537	1,380
Net income from discontinued operations	**692**	203	191	238	236
Net income – shareholders	**1,453**	2,111	1,927	1,775	1,616
Perpetual preferred share dividends	**57**	55	52	33	16
Net income – common shareholders	**$ 1,396**	$ 2,056	$ 1,875	$ 1,742	$ 1,600
Earnings per common share (1)	**$ 1.560**	$ 2.304	$ 2.104	$ 1.955	$ 1.794
Return on common shareholders' equity	**12.7%**	20.7%	20.1%	20.7%	20.5%
Book value per common share (1)	**$ 12.61**	$ 10.98	$ 11.24	$ 9.76	$ 9.13
Dividends to common shareholders – per share (1)	**$ 1.2000**	$ 1.0600	$ 0.9275	$ 0.810	$ 0.685

(1) Per share computations have been adjusted to reflect the two-for-one subdivision of the Company's common shares effective October 6, 2004.

DIRECTORS AND OFFICERS

As of December 31, 2008

BOARD OF DIRECTORS

Raymond L. McFeetors [2,3,4]
Chairman of the Board of the Corporation
Vice-Chairman,
Power Financial Corporation

Marc A. Bibeau [1]
President,
Beauward Shopping Centres Ltd.

Marcel R. Coutu [1]
President and Chief Executive Officer,
Canadian Oil Sands Limited

Orest T. Dackow [3]
Corporate Director

André Desmarais, O.C. [2,3,4]
Deputy Chairman, President and
Co-Chief Executive Officer,
Power Corporation of Canada
Co-Chairman,
Power Financial Corporation

Paul Desmarais, Jr., O.C. [2,3,4]
Chairman and Co-Chief Executive Officer,
Power Corporation of Canada
Co-Chairman,
Power Financial Corporation

H. David Graves [2]
Chairman, President and
Chief Executive Officer, IMRIS Inc.

V. Peter Harder [5]
Senior Policy Advisor,
Fraser Milner Casgrain LLP

Michael L. Hepher [1,2]
Corporate Director

Chaviva M. Hošek [1,5]
President and Chief Executive Officer,
The Canadian Institute for Advanced Research

Daniel Johnson [2,3]
Of Counsel to McCarthy Tétrault LLP

Kevin P. Kavanagh, C.M. [3,4,5]
Corporate Director
Chancellor Emeritus, Brandon University

The Right Honourable Donald F. Mazankowski, P.C., O.C., A.O.E. [3,4]
Senior Advisor to
Gowling Lafleur Henderson LLP

D. Allen Loney [3]
President and Chief Executive Officer
of the Corporation,
The Great-West Life Assurance Company,
London Life Insurance Company,
Canada Life Financial Corporation,
The Canada Life Assurance Company,
Crown Life Insurance Company

Jerry E.A. Nickerson [1,3]
Chairman of the Board,
H.B. Nickerson & Sons Limited

David A. Nield [2,4,5]
Corporate Director

R. Jeffrey Orr [2,3,4]
President and Chief Executive Officer,
Power Financial Corporation

Michel Plessis-Bélair, FCA
Vice-Chairman,
Power Corporation of Canada

Philip K. Ryan [3]
Executive Vice-President and
Chief Financial Officer,
Power Corporation of Canada and
Power Financial Corporation

Guy St-Germain, C.M. [1,3]
President, Placements Laugerma Inc.

Dr. Emőke J. E. Szathmáry, C.M., Ph.D.
President Emeritus,
University of Manitoba

Murray J. Taylor
Co-President and Chief Executive Officer,
IGM Financial Inc.
President and Chief Executive Officer,
Investors Group Inc.

James W. Burns, O.C., O.M.
Director Emeritus

The Honourable Paul Desmarais, P.C., C.C.
Director Emeritus

1 member of the Audit Committee
2 member of the Compensation Committee
3 member of the Executive Committee
4 member of the Governance and Nominating Committee
5 member of the Conduct Review Committee

EXECUTIVE OFFICERS

D. Allen Loney
President and Chief Executive Officer

William L. Acton
President and Chief Executive Officer,
Canada Life Capital Corporation Inc.

Mitchell T.G. Graye
President and Chief Executive Officer,
Great-West Life & Annuity Insurance Company

Andrew D. Brands
Vice-President, Associate Counsel,
Europe

Arshil Jamal
Vice-President, Capital Management

William W. Lovatt
Executive Vice-President and
Chief Financial Officer

Richard G. Schultz
Vice-President, Associate Counsel,
United States

Sheila A. Wagar
Vice-President, General Counsel and
Secretary

SHAREHOLDER INFORMATION

Registered Office

100 Osborne Street North, Winnipeg, Manitoba, Canada R3C 3A5

Stock Exchange Listings

Symbol: GWO

The following shares are listed on the Toronto Stock Exchange: Common Shares **(GWO)**, Non-Cumulative First Preferred Shares Series D **(GWO.PR.E)**, Series E **(GWO.PR.X)**, Series F **(GWO.PR.F)**, Series G **(GWO.PR.G)**, Series H **(GWO.PR.H)**, Series I **(GWO.PR.I)** and Series J **(GWO.PR.J)**.

Transfer Agent and Registrar

The transfer agent and registrar of Great-West Lifeco Inc. is **Computershare Investor Services Inc.**

In Canada, the Common Shares and Non-Cumulative First Preferred Shares, Series D, E and F are transferable at the following locations:

Canadian Offices	Computershare Investor Services Inc. 9th Floor, 100 University Avenue, Toronto, Ontario, Canada M5J 2Y1 6th Floor, 530 8th Avenue S.W., Calgary, Alberta, Canada T2P 3S8 1500 University Street, Suite 700, Montreal, Quebec, Canada H3A 3S8 2nd Floor, 510 Burrard Street, Vancouver, British Columbia, Canada V6C 3B9 Phone: 1-888-284-9137 (toll free in North America), 514-982-8885 (direct dial)

The Non-Cumulative First Preferred Shares, Series G, H, I and J are only transferable at the Toronto Office of Computershare Investor Services Inc.

Internationally, the Common Shares and Non-Cumulative First Preferred Shares, Series E and F are also transferable at the following locations:

United States Office	Computershare Trust Company, N.A. 350 Indiana Street, Suite 800 Golden, Colorado, United States 80401 Phone: 1-888-284-9137 (toll free in North America)
United Kingdom Office	Computershare Investor Services PLC P.O. Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH, United Kingdom Phone: 0870 702 0164
Ireland Office	Computershare Investor Services (Ireland) Limited P.O. Box 954, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, Ireland Phone: 353 1 216 3100

Shareholders wishing to contact the transfer agent by e-mail can do so by e-mailing: GWO@computershare.com

Dividends

Common Shares and First Preferred Shares Series D, E, F, G, H, I and J – Dividend record dates are usually between the 1st and 4th of March, June, September and December. Dividends are usually paid the last day of each quarter.

Investor Information

For financial information about Great-West Lifeco Inc. please contact:

Canada Operations	Senior Vice-President and Deputy Chief Financial Officer, Canada 204-946-8396
United States Operations	Senior Vice-President and Deputy Chief Financial Officer, United States 303-737-5200
Europe Operations	Senior Vice-President and Deputy Chief Financial Officer, Europe 416-552-6934

For copies of the annual or quarterly reports, please contact the Secretary's Office at 204-946-4388 or visit our website: **www.greatwestlifeco.com**.

Common Share Investment Data*

	Market price per common share ($)			Dividend	Dividend	Dividend
	High	Low	Close	paid ($)	payout ratio	yield**
2008	**35.29**	**19.49**	**20.70**	**1.20**	**76.9%**	**4.4%**
2007	37.58	32.50	35.57	1.06	46.0%	3.0%
2006	34.39	27.16	33.80	0.9275	44.1%	3.0%
2005	30.70	26.01	30.70	0.81	41.4%	2.9%
2004	26.99	21.87	26.70	0.685	38.2%	2.8%
2003	23.08	17.44	22.75	0.5625	38.1%	2.8%
2002	19.90	16.25	18.63	0.4725	37.4%	2.6%
2001	20.02	15.18	17.15	0.39	56.2%	2.2%

* In October 2004 the Corporation's common shares were subdivided on a two for one basis. The data presented has been adjusted to reflect this share subdivision.

** Dividends as per cent of average high and low market price.

GREAT-WEST
LIFECO INC.

A member of the Power Financial Corporation group of companies.

E987(08LIFECO)-3/09